

UK Foreign Direct Investment in Ghana: Determinants and Implications

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Declaration

I hereby declare that the work presented in this thesis is solely carried out by myself at Edinburgh Napier University, except where due acknowledgement is made and that it has not been submitted for any other degree.

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Date: 7th May, 2014

Abstract

The aim of this study is to empirically investigate the relative significance of the determinants of UK foreign direct investment (FDI) in Ghana. According to the United Nations Conference on Trade and Development (UNCTAD)'s World Investment Report in 2013, developing countries outperformed developed countries as recipients of FDI, and it is crucial that Ghana competes to increase its share in this positive trend. It is believed that Africa needs to target some countries and even some companies rather than adopt generic strategies if their promotional activities to attract FDI are to be effective. In Ghana's case, one of the priorities to increase its share of FDI and subsequently that of Africa could be to reverse the declining trend of inward FDI from the UK, which was Ghana's leading source of FDI until recently. By applying the OLI paradigm in the context of UK FDI to Ghana, the study provides a template of how FDI from a particular country may be attracted by analysing the determining factors from the perspective of companies already experienced in the market.

This study adopted explanatory mixed research method in accordance with the pragmatic research philosophy. This enabled all the 286 contactable UK companies in Ghana to be reached through the survey method. Then based on the initial analysis of 101 usable responses in SPSS, representing 35 per cent response rate, eight sequential interviews were conducted through convenience sampling. The interviews were deductively analysed by manually categorising the responses according to the questions asked, in order to build explanations of the survey findings.

Consistent with the OLI paradigm, the research revealed that all the surveyed companies possess ownership advantages such as strong brands, or the potential to develop strong brands, unique products, management and marketing know-how and transferrable experience from similar markets, all of which are crucial for successful investment in Ghana. However, for Ghana to retain UK companies in

the country and attract more, favourable locational factors identified in the study need to be provided and nurtured. These include reliable infrastructure, enhanced market size, political stability and continuity, opportunities for agglomeration and a functioning regulatory framework which augment different degrees of internalisation, as the majority of the companies have preference for the wholly owned subsidiary entry mode. The study also found the effect of current tax incentives, formal institutions and informal ties in attracting and retaining FDI was insignificant.

This research has made a unique contribution to the understanding of the determinants of FDI in a number of ways. In practice, the sample is unique as it excluded companies operating in traditional natural resources and therefore outside the jurisdiction of the Ghana Investment Promotion Centre (GIPC) according to the GIPC Act 478 of 1994. This makes the findings specific and relevant to GIPC and investment promotion agencies in Africa, regarding crucial factors to be highlighted and to abolish practices which do not add value to the country as the preferred investment destination for UK companies. Academically, this study fills a number of gaps in the literature. First, it was unique in examining the variables to be considered in retaining as well as attracting FDI, as the majority of studies on determinants of FDI focus more on attraction and less on retention of existing companies, despite the crucial role existing companies play in agglomeration, urbanisation, brand development and other benefits of FDI. The framework developed from this study may also be adopted or modified for future studies. Methodologically, another contribution is the application of explanatory mixed research methods to empirically study the determinants of FDI in Ghana.

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CHAPTER 1: INTRODUCTION

1.1. Introduction and Background to the Study

The aim of this doctoral study is to empirically investigate the determinant factors in attracting and retaining UK Foreign Direct Investment (FDI) in Ghana. It has been stated that despite the importance of FDI to the Ghanaian economy, very little empirical research has been conducted on the factors that contribute to inward FDI to Ghana (Owusu-Antwi, *et al.*, 2013; Harvey and Abor, 2009). More research needs to be conducted on FDI in Ghana and in Africa because there is good potential for excellent return on investment in Ghana (Barthel, *et al.*, 2011).

It has been reported that in 1995, for example, investors had 40 per cent return on their investment in Africa within 12 months (Mobius, 1996). Besides, Financial Times reported on 10th June 2009 that Nigeria was the single most important market in terms revenue generation for PZ Cussons, a UK company which manufactures and distributes consumer products. This is a particularly interesting observation because FDI in Africa is normally perceived to be largely resource-seeking (Ezeoha and Cattaneo, 2012; Wahid, *et al.*, 2009; Asiedu, 2006). PZ Cussons' experience as stated above means there are opportunities for other motives of FDI apart from resource-seeking, such as market-seeking. It is also established that African economies have been achieving relatively strong economic growth in recent times, which according to Mijiyawa (2013), has generated euphoria. There have also been efforts by government agencies in Ghana such as Ghana Investment Promotion Council (GIPC) and the Brand Ghana Office to attract FDI into the country due to perceived benefits to host countries. These FDI benefits include technology transfer, creation of employment, transfer of management skills, improved productivity and consequently economic growth (De Vita and Kyaw, 2011; Ferretti and Parmentola, 2010; De Vita and Kyaw, 2009; Hatani, 2009, Tanna, 2009; Vu and Noy, 2009, Buckley *et al.*, 2008). In 2010, for example, the Brand Ghana Office organised a summit titled "Ghana: In Search of a

Competitive Identity”, aimed at various stakeholders, including businesses to project the country to the populace as well as the international community as attractive investment destination (Ghana Broadcasting Corporation, 2010).

Overall, the trend of FDI in Africa could be better. For example, according to Bezuidenhout (2009), the relative share of FDI into Africa over the last decade has actually declined. Cleeve (2009: 243) has also added that “the level of FDI flows to SSA (Sub-Saharan Africa), however, has not met with expectations, lagging behind all other regions in its global share of FDI”. He continued that despite the increase of FDI to Africa, the continent’s share of FDI to developing countries rather fell from 10 per cent in the 1980s to 7 per cent between 2000 and 2004. It has been suggested that the decline in the global share of FDI in Sub-Saharan Africa is a pointer to economic marginalisation of the sub region (Bartels, *et al.*, 2008).

This study adds significantly to the body of literature on reversing this trend in Africa in general and in Ghana in particular, and also adds to studies revisiting and monitoring trade between former colonizers and colonies and the effect on economic growth and development (Jones, 2013; Makino and Tsang, 2011; Head, *et al.*, 2010; Austin and Uche, 2007; Beraho, 2007; Milhomme, 2004). The section below provides further justification of this study.

1.2. Justification

In order to increase the flow of FDI, the investigation of the determining factors needs to be given more attention (Owusu-Antwi, *et al.*, 2013; Harvey and Abor, 2009). As a result the determinants of FDI have been explored for better understanding of the relevant variables which contribute in successful investment in host countries (Estrin and Prevezer; 2010; Asiedu and Freeman, 2009). This current research adds to the body of literature on the determinants of FDI. Besides, with the oil find in Ghana, there is a danger of the country getting caught up in the “Dutch Disease”. The Dutch Disease has been defined as “deindustrialization of a nation’s economy that occurs when the discovery of a natural resource raises the

value of that nation's currency, making manufactured goods less competitive with other nations, increasing imports and decreasing exports" (Arhenful, 2013: 153). He continued that the term was originally coined to describe the negative effect the discovery of natural gas in the Netherlands in the 1960s had on the economy due to the neglect of other sectors, including manufacturing. The World Bank (2009) has described the Dutch Disease as a shift in focus from key sectors such as agriculture and manufacturing, which may lead to economic stagnation. This report claimed that Ghana has already started exhibiting many symptoms of the Dutch Disease, though this view has been questioned by Dartey-Baah, *et al.*, (2012). However, whether there is evidence of neglect of key sectors or not, it is legitimate to take measures to avoid such occurrence. UNDP (2013) for example mentions the real danger of the Dutch disease for African countries relying on the extractive industry if care is not taken. Therefore interest needs to be stimulated on other sectors that can potentially offer excellent results apart from the oil and mineral resources.

Furthermore the importance of FDI to host countries, especially if they have the appropriate absorptive capacity, has already been established (Cleeve, 2012; De Vita and Kyaw, 2009; Hatani, 2009; Nah, 2009; Naudé, and Krugell, 2007; Hill, 2007; Griffin, *et al.*, 2007, Newhouse; 2006). It is expected that an increase in FDI to Africa will contribute in achieving poverty reduction as stated in the United Nations Millennium Declaration (Asiedu, 2006). Furthermore, FDI enables companies to achieve more value for their ownership advantages (Bitzenis, *et al.*, 2007).

From the above, FDI research is undoubtedly important, and this research has made the following additional contribution to knowledge and practice:

1.2.1 Potential Contribution to Knowledge

The study investigates the determinants of UK FDI in Ghana in order to better understand how to attract and retain more foreign investment in the country.

The study of the determinants of FDI in developing countries remains a legitimate topic for further exploration and analysis due to its economic importance (Tuomi, 2011). The general aim of this study was therefore to enrich the academic literature on the determinants of FDI in Africa in general and Ghana in particular. Very limited research has been done in this area as compared to other emerging markets such as Latin America and the Far East (Owusu-Anwi, *et al.*, 2013; Bartels, *et al.*, 2009; Lumbila, 2005; Asiedu, 2002). Besides, as far as the extensive review of literature could confirm, this is the first time such a research about determinants of investment from a single country to Ghana has been conducted. Therefore this research fills an important gap in the academic literature. However, the study of this nature is not new elsewhere. For example, in 1984 the UK Government asked John Dunning to study the determinants of Japanese FDI in the UK (Dunning, 2009b). Besides, the acknowledgment that policies that work well in one Sub-Saharan country may not necessarily work in another (Cleeve, 2009) is a pointer to the need to conduct country-specific research where practicable. Methodologically, it has been stated that the knowledge of implementation of mixed methods is limited, though it deserves greater attention (Fendt *et al.*, 2008; Ruokonen, *et al.*, 2008; Hurmerinta-Peltomaki and Nummela, 2006). In the systematic analysis of the literature, no empirical research on FDI in Ghana has attempted to use explanatory mixed methods. This research therefore adds to the application process of the identified mixed methods typologies for international business research. These typologies have been discussed in Chapter 5. The next section presents the contribution this research makes to practice.

1.2.2. Potential Contribution to Practice

According to (Erramilli and Rao, 1990), a company's knowledge of the market or similar markets may have influence on entry mode. They explained that this is because there is a positive relationship between investors' knowledge of foreign market and the level of resources they are prepared to commit to the market. Therefore if companies are confident in their perceived knowledge of a particular market, they are more likely to commit more resources into the market. This correlation is explained by the perceived reduction of risk and uncertainty. This research contributes in making the knowledge about the determining factors available to companies who may be considering investment in Ghana and Africa in general.

Furthermore, though Ghana has earnestly been seeking FDI flow into the country, the pace has been slow (Harvey and Abor, 2009). It may be that the investment promotion requires an alternative approach. This is because it has been suggested that Africa needs to target some companies and countries if their promotional activities to attract FDI are to be effective (Musila and Sique, 2006; Wint and Williams, 2002). Besides, Barthel *et al.*, (2011) alluded to this by recommending that FDI attraction activities, particularly in manufacturing should focus on a few sectors rather than on a large number of diverse industries. This study therefore contributes in the evaluation of the determining variables from the perspective of investors from one country to reveal the crucial variables which need to be given attention in order to attract FDI. Focusing on FDI from one country to another is significant because it is believed that investors from different countries behave differently. For example, Cho *et al.*, (2009) assert that countries differ from each other to create country specific advantages. They believe that the country specific advantages of host countries as well as the home country combine to create the competitiveness of multinational companies. Therefore this study provides a very useful template for investment promotion agencies not only in Ghana but Africa in general in targeting investment from a single country. The section below presents the aims and objectives of this study.

1.3. Aims and Objectives

The aim of this study is to investigate the determinants of UK FDI in Ghana. In this context the study has the following objectives:

1.3.1. To critically discuss the relevant literature on determinants of foreign direct investment in relation to Ghana.

1.3.2. To critically identify the theoretical frameworks for FDI analysis and to ascertain the extent to which the adopted framework could be applied in the context of UK FDI in Ghana.

1.3.3. To propose a framework to explain the interrelationships among OLI variables and motives in relation to FDI in Ghana and test it through a survey and interviews with UK companies in Ghana.

1.3.4. To provide the investment promotion agencies in Ghana with crucial factors to consider in attracting and retaining FDI.

1.3.5 To understand the extent to which companies seek strategic assets to support what they already have.

1.3.6. To investigate the relative importance of the ownership advantages.

1.4. Research Philosophy

Pragmatism, described as the scientific philosophy which addresses the relationship between theory and practice (Fendt, *et al.*, 2008), offers an appropriate philosophical underpinning for this research. It presents knowledge that can be applied in future due to the fact that not only does it present the general attitudes of companies towards the variables under investigation, but also offers practical examples and solutions that companies and investment promotion agencies could

relate to. According to Kelemen and Rumens (2012) in reference to the thinking of the pragmatists, researchers have a moral duty to present knowledge that has effects on future applications. Through this approach, this research adds to the theoretical discussions on the determinants of FDI, as well as offer practical knowledge and suggestions to IPAs, current and prospective UK companies in Ghana. The pragmatic research approach has other advantages such as the offer of flexibility in reaching a wide sample and also making it possible to integrate the findings with rich examples of the respondents' experiences which otherwise could not have been captured. Furthermore, it enables the research to focus on the research question rather than on any paradigm divide (Goldkuhl, 2012; Saunders and Thornhill, 2011).

1.5. Research Methods

Following comprehensive review of the literature on FDI, the pragmatic research philosophy and different typologies for research design, the explanatory mixed research approach was adopted (Creswell, 2009 Teddlie and Tashakkori, 2009). The review of the literature offered legitimacy of the variables investigated and their significance in the Ghanaian business context. Based on the literature findings, a conceptual framework underpinned by the OLI paradigm was designed. In accordance with the sequential explanatory research design (Harrison and Reilly, 2011) the questionnaire was designed and administered to all the 286 UK companies located in Ghana.

The quantitative data was analysed and based on the initial findings, semi-structured face-to-face and telephone interviews were conducted through convenience sampling. This research focused on all UK companies who had at least 10 per cent ownership and control of established businesses in Ghana at the time of the data collection in April, 2013. Companies operating in the extractive industries were excluded because it is generally not difficult to attract investment in the extractive industries. For example, it is believed that Chinese companies whose dominant motive for FDI in Africa centres on resource-seeking are not

deterred by weak and dysfunctional institutions or political instability (Kolstad and Wiig, 2011). Furthermore, GIPC which has been entrusted with the responsibility of attracting and retaining FDI do not have companies in the extractive industries under their jurisdiction. As part of the justification for carrying out this research was to produce results specific and relevant to the GIPC, the extractive industry was excluded. Just as countries which are not heavily endowed with natural resources are able to successfully compete for FDI (Cleeve, 2009), GIPC should still be able to compete for FDI in sectors other than natural resources. The flexible approach adopted through the worldview of pragmatism enabled both online and paper questionnaire to be integrated.

1.6. Research Questions

By way of summarising and clarifying the aims and objectives above, the research is guided by the following research questions:

- What are the determinants of UK foreign direct investment in Ghana?
- What are the relationships between the determinants and the FDI motives?
- What is the relative importance of the ownership advantages in Ghana?
- Which aspects of the determinants would be the responsibility of the Ghana Government to implement?
- To what extent are UK companies seeking cooperative investments opportunities in Ghana to augment current ownership advantages?
- To what extent do the significant determinants identified vary depending upon the entry mode?
- What theoretical framework may be used to analyse the determinants of FDI?

1.7. Structure

The rest of this study is structured as follows:

Chapter 2 presents the context of the study in relation to key conditions which may affect UK investment in Ghana. These include the demography and human capital

of the country, social and cultural background, technological conditions, economic indicators, the political situation, the historical relationship between Ghana and the UK, doing business in the country in general and the flow of FDI in Ghana.

Chapter 3 presents a detailed review of the literature to uncover the main strands of research on FDI in general and FDI in Ghana in particular in order to identify the research gap. This includes how FDI has been defined, types of FDI, determinants of FDI, some theoretical frameworks for FDI research and the importance of FDI to investors, host and home countries.

Chapter 4 is about the development of the conceptual framework. The framework was proposed based on the synthesis of the key determinants, theoretical arguments and frameworks for robust analysis of the determinants of FDI.

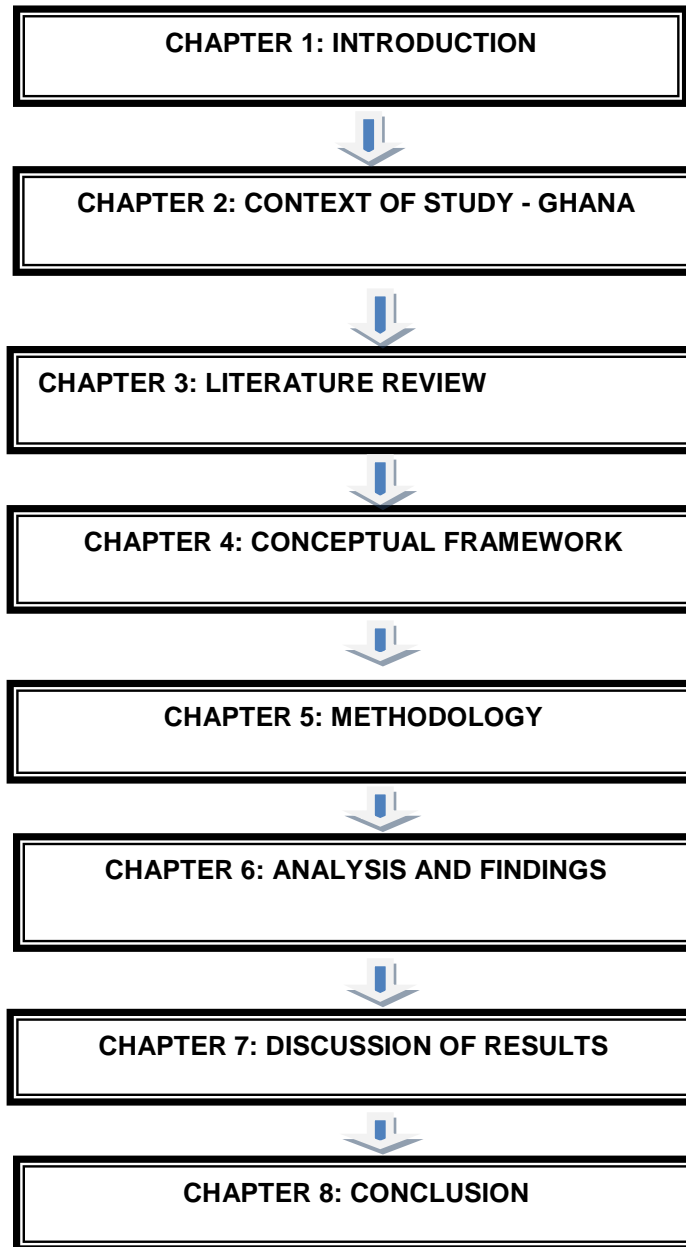
Chapter 5 presents the methodological approach and research design, as well as the methods for data collection, analysis and interpretation.

Chapter 6 focuses on the quantitative analysis of the data. This includes the description of the data and the acceptance and rejection of the hypotheses.

Chapter 7 presents a detailed analysis and discussion of the findings, explaining with the interview results and literature, why the hypotheses were accepted or rejected.

Finally Chapter 8 concludes this study with a summary of the main findings and reveals the contribution it makes to knowledge and practice. It also offers recommendations for the Ghana government to consider if they intend to attract FDI particularly from the UK. Furthermore, it highlights the limitations of this research and suggests avenues for future research as a result of the findings of this research. Figure 1.1 summarises the structure of the thesis.

Figure 1.1: Structure of the thesis



CHAPTER 2: THE CONTEXT OF THE STUDY

2.1. Introduction

Ghana is a West African country bordered by the Gulf of Guinea (the Atlantic Ocean) in the south, Burkina Faso in the north, Togo in the east and Cote d'Ivoire in the west, and incidentally it is about the same size as the UK (Debrah, 2002). This chapter provides an overview of Ghana, highlighting several issues that impact on the topic under investigation. The chapter starts with a brief discussion of the country regarding its macroeconomic environment. A brief account of the historical relationship between Ghana (host country) and the UK (home country) is provided in order to establish the background of trade between the two countries. Furthermore, the process of doing business in Ghana is examined, followed by an analysis of the FDI trend including investment from the UK and other major countries operating in Ghana. Finally the chapter concludes with a summary of the issues related to FDI in Ghana as identified in this chapter.

2.2. Demography and Human Capital

The latest population and housing census conducted in Ghana by the Ghana Statistical service was in 2010 and was published in 2012. This census stated the total population in Ghana to be 24,658,823, as seen in table 2.1. The table also provides information on the geographical distribution of the population, the total land area as well as the land per each of the ten regions of the country. It also has information on the literacy rate in Ghana. The literacy rate provides an indication of the human capital, and the total population and its regional distribution offer an indication of the market size for market-seeking companies. The land area gives an idea of the geographical size of the country.

Table 2.1: Population, land area and literacy distribution in Ghana

Region	Population	*Non-literate	*Literate	*Non-literate percentage	*Literate percentage	Land area in square kilometres	
All regions	10	24,658,823	5,500,068	12,892,787	25.9%	74.1%	238,533
Western Region		2,376,021	392,678	1,272,529	23.6%	76.4%	23,921
Central Region		2,201,863	335,615	1,202,476	21.8%	78.2%	9,826
Greater Accra Region		4,010,054	327,245	2,725,082	10.7%	89.3%	3,245
Volta Region		2,118,252	396,085	1,096,453	26.5%	73.5	20,570
Eastern Region		2,633,154	353,919	1,512,790	19%	81%	19,323
Ashanti Region		4,780,380	593,838	2,823,430	17.4%	82.6%	24,389
Brong Ahafo		2,310,983	482,391	1,116,610	30.2%	69.8%	39,557
Northern Region		2,479,461	987,384	583,660	62.8%	37.2%	70,384
Upper East Region		1,046,545	374,677	339,419	52.5%	47.5%	8,842
Upper West Region		702,110	256,236	220,338	53.8%	46.2%	18,476

Source: Ghana Statistical Service (2012)

* The literacy rates as provided by the Ghana Statistical Service (2012) were based on the 17,392,855 segment of the population who were 11 years or older rather than on the total population of 24,658,823.

From Table 2.1 above, it may be argued that Greater Accra region has more potential for trainable employees due to their relatively high literacy rate. It therefore has better human capital compared with all the other regions in Ghana. This is because one of the key indicators in the measurement of human capital in a country is the level of literacy (Robson, *et al.*, 2012; Borensztein, *et al.*, 1998). According to Rolleston and Oketch (2008), the human capital theory first appeared in the works of Theodore Schultz. This theory projects education as investment in man. Schultz (1960) postulated that education should be described in relation to human capital, since it becomes part of the person receiving it. Education potentially improves the productivity of employees. He continued that lack of human capital is a cause of poverty. By extension, therefore, the regions with high

literacy rate such as Greater Accra, Ashanti, Eastern, Central and Western regions provide the desirable human capital for companies. They also provide potential market for market-seeking FDI due to their relative high purchasing power. These may contribute in explaining why FDI are concentrated largely in the Greater Accra Region compared to the other regions (see Table 2.2). As can be seen above, the Northern Region has the biggest land area and the Ashanti Region has the biggest population compared to the other regions, but the Greater Accra Region appeals more to investors.

The potential relationship between high literacy and inflow of FDI in Ghana is consistent with the conjecture that the level of education of the labour force in a country affects both the volume of FDI and the varieties of activities multinational companies are prepared to undertake in the country in question (Dunning, 1988a). From the above it may be concluded that generally the southern part of Ghana present very varied opportunities for FDI in Ghana due to the relatively high population, human capital and its relative high purchasing power.

2.3. Economic Condition

The Ghanaian economy has traditionally relied heavily upon agriculture and forest products (mainly cocoa and timber export) signified by the green in the national flag, and natural resources such as gold, diamond, signified by the yellow colour in the flag (Mmieh *et al.*, 2012; Ndziba, 2010). Overall, three of the most important sectors for the country's economy are agriculture, industry (or manufacturing) and service, with agriculture contributing 40 per cent of the gross domestic product (GDP) and employing 50 per cent of the population (Owusu-Frimpong, *et al.*, 2011). Some of the agricultural products for export and domestic use apart from cocoa are banana, pineapple, kola nut, lime, coffee, copra, shea nuts, palm kernels, rubber, sugar cane, cotton, kenaf, plantain, rice, maize, millet and yam (Debrah, 2002). It must be emphasised that the availability of agricultural products

largely depends on the rainfall patterns, with erratic rainfall occasionally causing months of famine in some areas (Easterly, 2002).

Though some success has been achieved in trying to uplift Ghana to a middle income country, including a GDP growth of 8 per cent achieved in 2012 which was projected to grow even further in 2013, about a quarter of the population still lives below the poverty line (IMF, 2013). However, according to this IMF report, the economy has outperformed sub-Saharan Africa in GDP growth, and this is an indication of a growing economy with the potential to support FDI of different motives. Part of this growth has been attributed to the oil find. According to Dartey-Baah *et al.*, (2012), the Jubilee field holds over 1.8 billion recoverable oil. They added that Tullow Oil plc, a UK-based company, has discovered another field in Ghana, and it is expected that more fields will be discovered in the country. They highlighted the level of optimism and anticipation in the country's overall growth and development as stated below:

"The expected revenue to be generated by government from the oil would potentially strengthen Ghana's development initiatives and the 'petro-dollars' will be essential in fuelling the engine of growth and the desired development yearned for by Ghanaians" (Dartey-Baah, *et al.*, 2012: 186)".

According to Mmieh, *et al.*, (2012) the current economic conditions offer much optimism compared to the 1970s and 1980s when the economy almost collapsed with GDP growth rate of -12.85 per cent at some point. Easterly (2002) critically presented a gloomy picture of some countries, including Ghana, from the 1970s to the 1990s. He stated that inflation was above 40 per cent; black market, smuggling and corruption were the order of the day, and famine and malnutrition were common. However, the country has made tremendous economic progress over the years. For example, the World Bank and The IMF-assisted Structural Adjusted Programme and the Economic Recovery Programme sought to reduce the country's debt and promote private-led economic recovery, and these provide significant macroeconomic indicators for the country. Besides, the Ghanaian Government has been demonstrating political will and leadership by working towards strong economic growth and improvement in the standard of living. This is through initiatives such as Vision 2020 and the Public-Private Partnership

programme (Badu *et al.*, 2012; Owusu-Manu *et al.*, 2008). In fact, Ghana is noted as one of the top reformers, according to Barthel, *et al.*, (2011) due to the successive governments' preparedness to implement the required reforms for growth and development. These include the Free Zone Act, the Investment Code (GIPC Code) and the Mining Code which have all contributed in creating conducive environment for both foreign and domestic businesses. Also, the poverty level of the country has been decreasing dramatically and compares favourably with the rest of the sub-Saharan countries (Owusu-Frimpong, *et al.*, 2011). The authorities are mindful of the need to develop the non-oil sectors as well as create more jobs, and this is one of the reasons for their openness to foreign investment due to its potential to create jobs. From the GIPC Second Quarter Report (2013), 7,579 jobs were expected to be created in that quarter alone, and before then, the first quarterly report of the same year projected the creation of 67,582 jobs.

Furthermore, Ghana has been achieving growth and reduction of poverty through the implementation of a number of initiatives including the Growth and Poverty Reduction Strategy (GPRS II), Millennium Development Goals and the Economic Recovery programme (Senadza, 2012). As a result, it has now reached the lower middle income status (IMF, 2013), which relatively increases the purchasing power of the inhabitants and therefore makes the country attractive to market-seeking FDI.

2.4. Social and Cultural Factors

Ghana is ethnically diverse, and Easterly (2002) reported that ethnic polarisation between the 1950s and 1990s resulted in the government creating policies as incentives to groups which supported the government in power at the time, even if the policies were bad for the country generally. Significantly, the country is still ethnically diverse but the polarisation has changed, since political parties, organisations and religions bodies are made up of people from different backgrounds. The people of Ghana speak about 250 languages and dialects, but English is their official language used as the medium for government and business

in the country (Ndzibah, 2010). About 64 per cent of the population of Ghana live in the rural areas and 36 per cent in the cities (Mmieh, *et al.*, 2012). Poor infrastructure in the rural areas makes accessibility to the largest proportion of the population, which represents potential market size for both foreign and domestic companies difficult.

Though literacy has been improving, it is reported that about 57 per cent of the population in Ghana did not have any formal education or did not attend school (Hinson, 2011). This fact potentially may have contributed in the shortage of skilled labour in the country (Owusu-Antwi, *et al.*, 2013). This situation may be perceived as the country lacking skilled labour due to the low literacy rate. However, it also offers companies with the appropriate skilled and experienced staff competitive advantage. This is because a company's knowledge is contained in its employees (Masakure, *et al.*, 2009). Therefore, as there is lack of skilled labour generally, companies that hire expatriates or employees from the relatively less small pool of skilled workers have an advantage over those who do have the right members of staff.

It must be emphasised that a significant proportion of the population who are without formal education are based in the rural communities, which may be one of the reasons why the majority of foreign companies are located in the urban areas. There is also evidence of education inequality to the disadvantage of women particularly in the northern part of Ghana, namely the Northern, Upper East and Upper West regions of Ghana (Senadza, 2012). However, overall, the levels of literacy in the country have been improving, especially among the youth (Owusu-Frimpong, *et al.*, 2011). They continued that the literacy rate among the populace aged between 15 and 24 is 71 per cent. This potentially presents a trainable workforce for investors. Table 2.2 below offers an example of regional distribution of inward FDI in Ghana, indicating that the majority of the projects are located in the Greater Accra region where the capital city is located, which also has the highest literacy rate.

Table 2.2: Location of FDI projects according to region

Region	Number of Project (First Quarter)	Estimated Value (Million Dollars)	Number of Projects (Second Quarter)	Estimated Value (Million Dollars)
Greater Accra	76	263.92	78	256.92
Western	6	15.85	9	9.35
Ashanti	5	4.33	8	2.51
Brong Ahafo	2	7.60	2	2.54
Volta	2	1.03	3	10.71
Central	2	1.80	2	1.47
Volta	2	1.03	3	10.71
Upper East	1	0.15	No projects	
Upper West	No projects		1	0.01
Northern	No projects		1	0.05
Eastern	No projects		1	0.41

Source: GIPC 1st and 2nd Quarter Reports, 2013.

It is noted that a significant proportion of the Ghanaian population live in rural communities, making them almost inaccessible to foreign companies who are normally located in the capital cities (IMF, 2013). As a result, in the banking and finance industry for example, these communities are served by rural banks, microfinance companies and small ‘susu’ (informal collection and saving of money through numerous clubs and societies in Ghana). There is also a significant proportion of the population who are yet to be convinced about the essence of saving, because they do not have enough disposable income, but also culturally they are not used to saving with a bank. This is what Hinson (2011) attempts to address in his article, “Banking the poor: the role of mobiles”, as part of the efforts to bank the unbanked. He postulates that through the use of mobile phones, which has enjoyed increased penetration in the country, the population in the rural areas can be provided with some of the services banks offer.

As pertains in other African countries, religion and culture also play a key role in the lives of the people of Ghana. These present challenges as well as opportunities for investors. The following quotation is in reference to the Akan, the biggest ethnic group in Ghana:

“The phenomenon of religion is so pervasive in the life of the Akan, and so inextricably bound up with their culture, that it is not easy to isolate what is purely religious from the other aspects of life. It may be said, without fear of exaggeration, that in the life of the Akan, a thorough knowledge of his

religion is imperative” (Opoku,1974: 286).

In agreement with the above quotation, using more current information, 45 per cent of the people of Ghana follow various forms of traditional religion, 43 per cent are Christians and 12 per cent are Muslims (Owusu-Frimpong, *et al.*, 2011). Using the Akan ethnic group as an example again, their lives and ambitions may also be guided by proverbs. They believe proverbs cover all facets of life and define what is considered as an acceptable behaviour, values and customs (Ross, 1982).

Darley and Blankson (2008) sum up the importance sociocultural context in which businesses operate and how this impact on foreign companies in Africa, including Ghana. They stated that foreign companies operating in Africa need to understand the cultural realities and sensitivities to facilitate business transactions in Africa. They also highlight in the same research, which included Ghana, that African culture differs in the way they construct meanings, operate in a social context and make sense of their environment.

2.5. Technological Consideration

Though Ghana is not considered as a technologically advanced country, gradually the tertiary institutions are producing graduates who are considered as technologically savvy, therefore trainable for both local and foreign companies (Hinson, *et al.*, 2011). The use of online banking, ATMs, e-statements and more sophisticated data storage and management are some of the ways technology is being employed to facilitate customer service in the banking industry (Amoako, 2012; Owusu-Frimpong, *et al.*, 2011). The arrival of telephone companies from relatively advanced countries such Vodafone from the UK and Bharti Airtel from India are contributing in the availability and consumption of technology. Research shows that the people of Ghana are not reluctant to accept and try technology. For example, it is believed that Ghana was among the first countries in Africa to have internet access in 1995 (Effah, 2014). The Kofi Annan-Indian ICT Centre is among a number of initiatives to develop the information and communication technology in

the country (Hinson and Sorensen, 2006). This may be a fertile ground for investment for companies who offer technological products or companies who may wonder how easily personnel in Ghana may be able to adapt quickly to new technology if the need arises.

Ghana has embraced technology in a number of other sectors, which offer UK companies a greater repertoire of sectors for investment, and also enable companies to use technology to achieve efficiency. For example, Owusu-Frimpong *et al.*, (2011) state that provision of ATMs has become one of the key factors customers consider in their choice of banks. The website Tonaton also offers an example of how the people of Ghana have embraced technology to facilitate trade. From this website, people can buy or sell any items or advertise jobs across the country.

However, recent research laments that the level of student enrolment in science and technology-related courses especially at the tertiary level is inadequate (Osabutey and Debrah, 2012). They continue that there is lack of public policy initiatives in the area of technology knowledge transfer from inward FDI. This means that though the quantity of FDI may be increasing, the impact in relation to the country's absorptive capacity may not be as remarkable. This is a common phenomenon in sub-Saharan Africa (Elmawazini and Nwankwo, 2012). Potentially, low level of sophisticated technology as a result of less technology transfer could affect the type of companies Ghana may be able to attract. This is because it is evidently clear that some companies locate in other countries to augment the assets they already have including their technological know-how. As a result, Chiao, *et al.*, (2010) hypothesised that the more complementary assets held by a local company, the more likely a foreign company would choose joint venture. Therefore for the current level of technology transfers from foreign companies to be increased, it may be argued that there is the need for leadership initiatives to develop existing companies in Ghana to possess absorptive capacities. One of the ways to do this would be ensuring that tertiary institutions in the country produce people with the needed technological expertise. Coordination among tertiary

institutions, the Ghana Government and the business community is needed to develop the country's absorptive capacity (see Debrah and Osabutey, 2012).

2.6. Political Situation

Following an independence from the UK in 1957, Ghana became a republic in 1960 (Debrah, 2002). After periods of different political unrests and military regimes post-independence, Ghana has enjoyed relatively peaceful democratic system, and the country is hailed by the West as the beacon of democracy in Africa (Asare, *et al.*, 2012). Owusu-Antwi (2013) also states that the country has outperformed most African countries in political measures such as civil liberty, political rights and political stability. These achievements, together with other locational variables, contribute to the attractiveness of the country as an investment destination. IMF for example state that Ghana's strong democratic institutions and favourable prospects for oil and gas are attracting FDI (IMF, 2013).

It has also been stated that Ghana's introduction of multi-party democracy since the 1990s provides one of the key prerequisite for FDI – political stability (Barthel, *et al.*, 2011). Though the country has enjoyed relative political stability, there has been a lack of political leadership and will in some cases to fight equally challenging problems such as corruption, according to Abdulai, (2009). He continues that the governments of Ghana are more likely to engage in zero tolerance for corruption talks but continue to play 'tolerant corruption' game, as the anti-corruption initiatives are essentially a failure. Tolerant corruption game as stated by Abdulai above refers to a situation where political leaders publically speak against corruption but are themselves involved in corrupt practices. Institutions established to contribute in reducing corruption include the Serious Fraud Office and the Commission for Human Rights and Administrative, but inadequate funding has affected their effectiveness somewhat.

Studies have shown a relationship between corruption and FDI. Duanmu (2011) uncovered that multinational companies from countries which are less corrupt than

China preferred wholly owned subsidiary over joint venture. Similarly, companies from countries equally corrupt as China did not prefer wholly owned subsidiary over joint venture. Besides, Jimenez (2010) stated that some companies gain competitive advantage over others by being 'cosy' with the corrupt government of some countries, since the government controls allocation of resources. He continued that this may still be the case even after scandals have been uncovered. From the above, if Ghana is perceived to be corrupt, then different companies may react differently, including delaying or abandoning entry into the country, choosing the appropriate entry strategy for the perceived political situation, or establishing a network of relationships which could offer them competitive advantage.

2.7. Historical Relationship with UK

Ghana was a British colony until 1957 when it became the first African country to attain independence (Adu, 2013; Jones, 2013; Djokoto, 2012; Mmieh, *et al.*, 2012; Kobo, 2010; Abdulai, 2009; Easterly, 2002). Ghanaians are surrounded by imagery to remind them of their relationship with the UK. These include the English language adopted as the national language, the red colour in their flag which signifies the blood Ghanaians shed in their struggle to gain independence, and the Black Star in the middle of the flag which stands for total emancipation of the African continent, according to Ndzibah, (2010). Therefore, though the historical relationship has resulted in the inheritance of many positive legacies which may be nurtured as common grounds between the two countries such as the Commonwealth, the English language, the educational and legal systems, there are also levels of antagonism due to the colonial experience. It has been reported that Britain did a lot to kill the boom of Ghana. An example was the establishment of the monopolistic Cocoa Marketing Board to pay farmers far below what they deserved (Acemoglu and Robinson, 2010). Nonetheless, at the diplomatic level, this does not appear to have affected trade between the two countries. From the UK Government's website (Gov.UK, 2013), the UK assist Ghana to make an impact in the Commonwealth and supports British nationals in Ghana. It was published on their website that the UK export to Ghana increases by 21 per cent,

using figures from the 2011. As a result, Ghana is the UK's 6th largest export market in Africa and third in sub-Saharan Africa. This is not new because historically Ghana has remained an important trading partner for the UK. During the period of colonization (between 1821 and 1957), and especially up to 1913, the Governor in Ghana received high salary. According to Jones (2013), governors with high salary were sent to colonies which generated high revenues. These facts underscore how important Ghana was during the colonial days and how it still is to the UK businesses. These include UK companies already based in Ghana and those who may export to the country (see Head, *et al.*, 2010). Chapter 6 uncovers the extent to which UK FDI in Ghana is motivated by market-seeking objectives, just as it has been confirmed that Ghana offers market-seeking opportunities for UK products through export (Gov.UK, 2013). The UK has also been one of the top destinations for Ghana's export (Mmieh, *et al.*, 2012). It has also been said that the colony-colonizer relationship between countries boost trade significantly (Ghemawat, 2001), and this provides further justification regarding why FDI between Ghana (colony) and the UK (colonizer) may be studied. He also pointed out that historical ties must be friendly to create positive influence. This view has been echoed by Makino and Tsang (2011) who state that the impact of historical ties between two countries can be positive or negative depending upon how friendly or hostile the ties were perceived to have been.

2.8. Doing Business in Ghana

This section is based on the Doing Business Report for 2014 by the World Bank (2013). The report presents how easy or difficult it is for businesses to operate in Ghana, using a study of behavioural trend of eleven key indicators which they believe affect the life cycle of every business in the country. These variables are starting a business, dealing with construction permits, getting electricity, registering property, protecting investors, paying taxes, trading across borders, enforcing contracts, resolving insolvency and employing workers. There are 189 countries involved in this report and each country is ranked from 1st (best) to 189th (worse) against each of the eleven variables. In addition, the report presents how Ghana is

ranked overall, taking into consideration all the above variables. While the country did not improve on all the key areas over the years, there is an indication that it is heading in the right direction, as it has climbed up the table since 2004, until the previous year when it lost five places from 62nd to 67th.

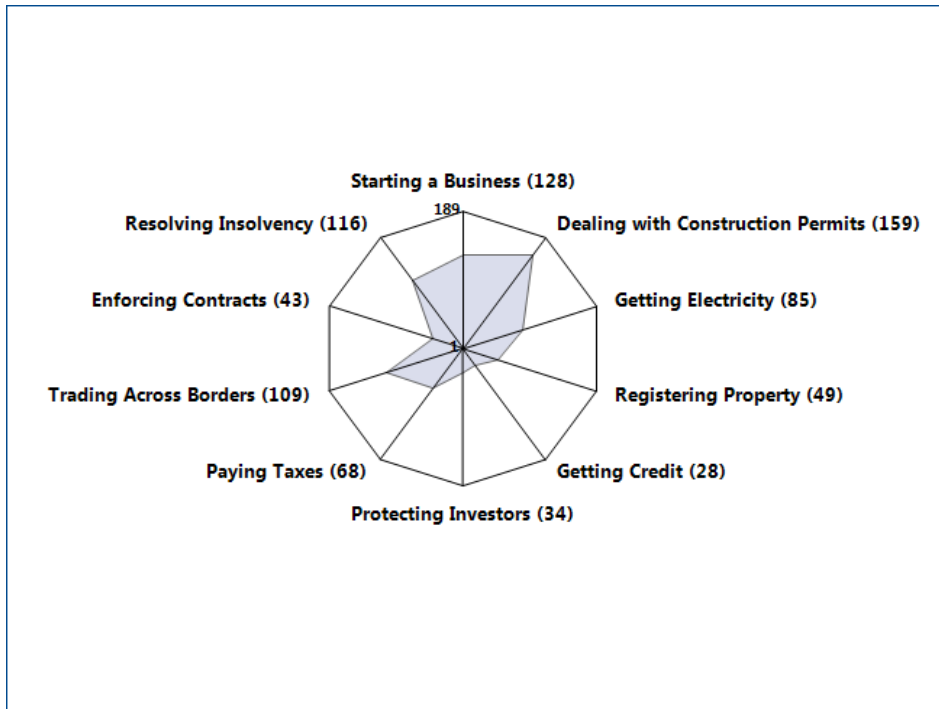
There are numerous examples to illustrate the improvement made according to The World Bank (2013). Regarding starting a business, the number of processes involved has reduced from 11 to 8, though the figure was 7 in 2013. Besides, the number of days it takes to register a business reduced from 22 in 2004 to 14 in 2014, though it was 12 in 2013. In effect, starting a business in Ghana is more difficult in 2014 than in 2013. For example, companies now require tax identification number before registration. This may be because of the Government's response to tax evasion which has been endemic in the country (GIPC, 2014). However the number of procedures and the number of days it takes in dealing with construction permits have remain unchanged for the last 10 years, and it is not surprising that their overall rank regarding this variable dropped by one place. Concerning how to get electricity, there were no changes in the number of procedures involved (4) and the number of days it takes (79 days). However the country's overall rank in relation to this variable improved marginally from 88th to 85th.

As regards registration of property, the number of procedures have remain virtually unchanged for the past 10 years but the number of days it takes has reduced significantly from 169 days to 34 days. However, this was not enough to improve the country's rank in this variable. In fact it dropped from 45th in 2013 to 49th in 2014, and this is an indication that most countries are competing for businesses by working aggressively towards creating conducive environment for businesses to operate in and, Ghana is no exception (Tienhaara, 2006). To improve its ranking, the country needs to do much more. There is not much information on getting credit in Ghana, but judging by the 2013 information provided in the World Bank 2014 report, the country dropped from 24th to 28th. Furthermore, for the past 8 years there has been no changes regarding efforts to protect investors, and with

competing countries improving, Ghana's rank dropped two places from 2013.

Figure 2.1 below shows how Ghana ranks compared with the other 189 countries in relation to key variables used in measuring the ease with which businesses are set up in Ghana.

Figure 2.1: Ghana's rank on doing business



Source: The World Bank (2013: 9)

Overall, Ghana has outperformed a number of countries as it is ranked 67th out of 189 countries. Also other figures from the World Bank (2013) reveal that the average rank in sub-Saharan Africa is 142nd, with competing countries such as Nigeria, Cote d'Ivoire and Mali well below the average. However, Ghana is still not doing very well in a number of areas, such as dealing with construction permits, resolving insolvency, trading across borders and starting a business. For example, a look on the websites of UK companies such Standard Chartered Bank, Barclays Bank, Blue Skies (Appendix L), Eaton Towers and Sangel Technologies International confirmed they trade across borders of countries. Therefore an improvement in the trading across borders score will benefit those companies. The government of Ghana needs to do more in order to make the country more competitive by simplifying processes and procedures where possible.

2.9. Foreign Direct Investment Flow

Ghana has been making efforts in attracting FDI to complement the income from the export of what has been referred to as the triad, namely cocoa, timber and gold (Bloch and Owusu, 2012). These include the implementation of the Structural Adjustment Programme and the Economic Recovery programmes from the 1980s and 1990s, and also institutionalising GIPC with the remit of attracting, promoting and retaining FDI (Abor and Harvey, 2008; Abor, *et. al*, 2008; Mmieh and Owusu-Frimpong, 2004). The government, through the GIPC Act also provides useful guarantees and protection to foreign companies by allowing free transferability of dividends and net profits attributable to investment in Ghana, provided the transfer is done through an authorised bank. It also permits transfer of funds for the purposes of servicing foreign loans and other liabilities obtained in investing in the country. Also, proceeds of the sale or liquidation of businesses and all interests attributable to investment in Ghana are protected (Mmieh, *et al.*, 2012). These initiatives were implemented to open the country to investors and ultimately present it as an attractive investment destination for the overall growth of the economy. From the United Nations Conference on Trade and Development (UNCTAD) factsheet for 2013, the inward FDI as a percentage of the GDP increased from 8 per cent in the 1990s to 34 per cent in 2011. By 2012, the FDI provided 42.2 per cent of the GDP (UNCTAD, 2013). These figures highlight the importance of FDI to the country. The country therefore operates policy of openness in order to encourage more FDI.

GIPC has been publishing a list of the top ten countries investing in the country every quarter. From the first quarter of 2013 report (January to March, 2013), India was the leading source in terms of the number of projects with 15 projects. China was second with 11, Lebanon third with 7, and the UK fourth with 6, the same number as the USA.

From the Second Quarter (April to June, 2013), China was first with 14 projects, Lebanon was second with 11 projects, India was third with 9 projects with Korea

and Nigeria fourth and fifth with 5 projects each. The UK was sixth with 3 projects, the same as France, South Africa, Turkey and the USA. According to the Third Quarter Report (July to September, 2013) and the Fourth Quarter (October to December 2013) India was the leading source of FDI.

However from the cumulative report (GIPC, 2013d) the UK was the leading source of FDI to Ghana in terms the value of FDI (\$425.77 million), but not in terms of number of projects being set up, with Brazil as second in terms of value(\$200.06 million). From the above, though UK was not the leading source of FDI to Ghana in terms of the number of projects, in terms of value, it was the leading investor in Ghana in 2013. This further provides justification of why UK FDI is important to Ghana and studies must be conducted to either improve or at least retain both the volume and value of UK FDI in Ghana. This is because UK used to be the leading source of FDI to Ghana in terms of the number of projects, as the table below confirms:

Table 2.3: Approved FDI projects by nationality (September 1994-June 2002)

Country	Number of Projects	Percentage
Great Britain	146	10.5
India	131	9.4
United States	107	7.6
Lebanon	102	7.3
Germany	90	6.4
China	85	6.1
South Korea	58	4.1
Italy	55	3.9
Netherlands	51	3.6
Switzerland	48	3.4
Canada	30	2.1
France	29	2.1
Israel	16	1.2
Nigeria	39	2.7
South Africa	26	1.8
Malaysia	12	0.8
Other developing countries	380	27.2
Total Projects	1,405	100

Source: Mmieh and Owusu-Fimpong (2004: 593)

The historical and current importance of FDI from the UK to Ghana as seen above provides justification for this current study.

2.10. Summary

This chapter contextualised the study by revealing some of the key characteristic conditions in Ghana. These conditions present opportunities as well as threats. For example, it revealed that the Greater Accra Region provides the greatest potential for human capital because of the relatively high literacy rate. Furthermore, Ghana has made significant economic progress recently, with GDP growth and diversified economy, putting the country in a strong position to host different types of FDI. Crucially, it confirmed that Ghana is renowned for one of the key determinants of FDI, political stability. Companies may either locate in the country mainly to serve the Ghanaian market or use it as a hub to access other markets due to its political stability. The chapter also confirmed that in 2013, the UK provided the biggest value of FDI. The value of UK FDI was in fact more than twice the value supplied by the second source of FDI in terms of value, Brazil. However, in terms of the number of UK companies setting up in Ghana, this could have been better, as the UK has consistently been outperformed by India, China, Lebanon and occasionally Brazil (GIPC, 2013d).

Ghana has also outperformed a number of African countries according to the World Bank's Doing Business Report, which highlights the relative ease with which to set up businesses. Overall, this chapter has revealed why Ghana is an important investment destination.

The next chapter extensively reviews the literature in relation to the determinants of FDI, the theoretical underpinnings for the study and the importance of FDI to provide further contextualisation of this study.

CHAPTER 3: LITERATURE REVIEW

3.1. Introduction

Though efforts have been made to attract FDI to Africa, the level of success has been low, as compared to other continents (Naude and Krugell, 2007; Dupasquier and Osakwe, 2006; Asiedu, 2004; 2002). It has therefore been suggested that policy makers should target certain groups of investors with their promotional package rather than trying to prescribe a set of rules for all investors in Africa (see Barthel, *et al.*, 2011; Musila and Sique, 2006; Wint and Williams, 2002).

The chapter begins by examining the ways in which FDI has been defined in the literature, in an attempt to create a working definition for this thesis. This is followed by the identification of the determinants of FDI in Ghana, Africa and other parts of the world as presented in the available literature. These include both factors that may influence companies to decide to invest in a foreign country and those that will make it a good strategic decision not to invest in a given country through FDI. In addition, research on the effects of FDI on host countries has been reviewed and some FDI and entry mode theories identified.

3.2. Definition of FDI

Foreign Direct Investment has been defined in various ways. For example, it has been defined as private capital flows from a parent company to an enterprise outside the parent company's home country (Pajunen, 2008) or simply the establishment of a new business abroad (Bradley, 2002). For the purposes of this research, the following definition has been adopted. FDI is:

"an internationalisation strategy in which the firm establishes a physical presence abroad through ownership of productive assets such as capital, technology, labour, land, plant and equipment" (Cavusgil, et al., 2008, p. 418)"

The acquired assets should be significant (a minimum of 10 per cent) to enable the parent company to exercise the required management control over the acquired assets abroad (Agbloyor, *et al.*, 2013; Boonlua, 2011; Omar, 2009; Bronzini, 2007; Hill, 2007). FDI normally involves far greater resource commitment and degree of

involvement than any other entry mode.

According to Pinho (2007: 716), entry mode is:

'an institutional arrangement that facilitates the entry of a company's products, technology, human skills, management and other resources into a foreign country'

Table 3.1 below which was produced, based on Cavusgil, *et al.*, (2008), Hill (2007), Erramilli and Rao (1990) and Young, *et al.*, 1989, lists entry modes available to investors:

Table 3.1: Types of entry mode

Entry Mode	Level of resource commitment/control
Licensing/Franchising	Very low
Agent/Distributor Export	Low
Direct exporting	low
Minority Joint Venture (FDI Mode)	moderate
50-50 Joint Ventures (FDI Mode)	Moderate to high
Majority Joint Venture (FDI Mode)	High
Wholly owned acquired subsidiary (FDI Mode)	High
Wholly Owned green field subsidiary (FDI Mode)	Very high

Table 3.1 above shows the entry modes UK companies intending to invest in Ghana could choose. It also shows the level of resource commitment and control for the various entry modes. The first three modes do not require physical presence of the UK company in Ghana. As a result, the UK company has low involvement and resource commitment, if any, in what happens to their product in Ghana. The first three entry modes are outside the remit of this research but information on them abounds if one needs to investigate these modes of entry (Nwankwo, 2013; Omar 2009; Talay and Cavusgil, 2009; Cavusgil, *et al.*, 2008; Cheng, 2008; Hill, 2007; Katsioloudes and Hadjidakis, 2007; Gooderham and Nordhaug 2004; Boateng and Glaister, 2003; Young, *et al.*, 1989).

The entry modes on table 3.1, which have been included for the purpose of this current study of FDI are joint ventures (minority, 50:50 and majority), and wholly

owned subsidiary (greenfield and acquired). The choice of entry mode has been identified as one of the most important strategic decisions of foreign investment (Chiao, *et al.*, 2010; Meyer and Estrin, 2001; Wind and Perlmutter, 1977). This is because they all have their advantages and disadvantages, and investors would need to evaluate these in order to select the entry mode that offers them the best value. From Table 3.1 FDI modes have the highest level of control and resource commitment. It is very expensive to withdraw assets from the foreign market if return on investment does not prove to be good enough, due to the relatively enormous volume of resources required to set up FDI. Because of this, it is very risky (Young, *et al.*, 1989); therefore strategic managers are generally more cautious in FDI decision-making. Regarding UK FDI in Ghana, strategic managers need to be convinced of the relative long-term potential in the Ghanaian market before choosing any of these FDI entry modes. The next section presents a closer look the repertoire of FDI entry modes that are available to the UK investor in Ghana.

3.3. Types of FDI

FDI can be classified in terms of form, that is, whether it is greenfield subsidiary, which is described as an establishment of a subsidiary in another country from scratch (Bronzini, 2007; also see section 3.3.1 below); or acquisition, which is acquiring an existing company in a foreign country as a subsidiary (see section 3.3.2). According to Cavusgil *et al.*, (2008), FDI can also be looked at by its nature of ownership (whether it is wholly owned or a joint venture). They added that it can also be classified as either vertical integration or horizontal integration. Vertical integration occurs when a company establishes a subsidiary in a foreign country to internalise one or more stages of the value chain, such as provision of raw materials for manufacturing purposes in the home country or for provision of sales and after sales services for products manufactured in the home country (see section 3.3.6). Horizontal integration is an establishment of a subsidiary in a host country to perform similar functions as those in the home country. For example, both the subsidiary and the parent company may be involved in manufacturing of

similar goods or provision of similar services (see section 3.3.7). Below are the definitions, advantages and disadvantages of the various types of FDI as presented in the literature.

3.3.1 Greenfield Investment

This is sometimes referred to as brick and mortar investment. This type of investment occurs when a foreign company establishes a subsidiary in another country from scratch (Bronzini, 2007). This includes acquiring real estate, hiring and training employees, providing capital and the management style in accordance with the culture of the company. The foreign company does not inherit assets or liabilities. This is generally the preferred mode of investment for host countries, as it is believed that this has the potential to create more job opportunities (Mwilima, 2003). The main advantage to the investor is that it makes integration with the corporate culture and strategies easier, as no assets and liabilities have been inherited (Hill, 2007). On the other hand, the approval of business plans and acquisition of real estate, recruitment of the right calibre of employees and marketing of products and services may all take longer. This means the break-even period may be longer and therefore only investors who are patient and those who focus on long-term returns may choose this strategy. It is also generally more expensive, compared to the other entry modes. Consequently, UK and US companies prefer acquisition to greenfield investment, due to huge pressure to produce short-term profits (Doole and Lowe, 2008), and the section below considers this alternative entry mode.

3.3.2. Mergers and Acquisitions

Acquisition has been defined as a direct investment to purchase an existing company or facility, while merger is a kind of acquisition where two or more companies come together to form one larger company (Keegan and Green, 2011; Hill, 2009). For this type of investment to be classified as FDI, the UK company

must have at least 10 per cent ownership and control of the established entity in Ghana (Bronzini, 2007; Hill, 2007; Mwilima, 2003). Examples of this in Africa are the acquisition of Absa in South Africa by the Barclays Group and Vodafone's takeover of Ghana Telecom. Vodafone acquired 70 per cent of Ghana Telecom for \$900 million in August 2008.

According to Mwilima, (2003), FDI through mergers and acquisition does not bring as much benefit to the host countries as would have been expected. Rather, it is a way for foreign companies to protect their assets and consolidate and advance their positions. However, mergers and acquisitions have advantages to companies. Some of these are instant market share and quicker return on investment (Cavusgil, *et al.*, 2008; Hill, 2007; Bradley, 2002). This may be particularly useful when companies want to avoid the sometimes complicated planning and negotiation processes involved in greenfield investment. It may also be attractive to European and American managers whose remuneration may be performance-related. From UN estimate, between 40 and 80 per cent of all FDI inflows from 1998 to 2003 were mergers and acquisitions (Hill, 2007).

However, there are some disadvantages associated with the choice of mergers and acquisitions. For example, mergers and acquisitions could be very expensive, especially where the investor was involved in a price war with other investors who were also interested in acquiring the company. According to Hill (2007) and Gooderham and Nordhaug (2004), integration of the two management teams (the parent and acquired company) may also be problematic, due to language and cultural differences. The section below presents an alternative approach to managing mergers and acquisition to deal with potential problems which may surface in the integration process.

3.3.3. Brownfield Entry Mode

Closely related to the two methods above is what has been referred to as Brownfield entry mode (Cheng, 2006; Meyer and Estrin, 2001). This, to some extent, is a hybrid of greenfield investment and mergers and acquisition. With this method, the foreign company acquires another in a host country to have access to locational advantages (Dunning, 1993, 1981). However, sometimes it becomes essential that the acquired company undergoes tremendous changes that it loses its original identity. Vodafone rebranded Ghana Telecom to Vodafone Ghana and made substantial changes to the original company, because it was not up to the standards of Vodafone. For example, Dowuona (2011), in an article published on the Ghanaweb, quoted Kyle Whitehill who was the Chief Executive Officer for Vodafone Ghana at the time as saying:

“The building we inherited from GT (Ghana Telecom) does not represent the corporate image and visibility we envisage for Vodafone Ghana but we feel this new building does”

From the above, it is clear the brand changed from Ghana Telecom to Vodafone Ghana, the colours and the slogan also changed and so was the headquarters. This new identity can be confirmed on the Vodafone Ghana website. For a company to be able to make as substantial changes as Vodafone made to Ghana Telecom, it needs to have a large percentage of ownership of the subsidiary. Vodafone therefore acquired 70 per cent ownership of Ghana Telecom to facilitate the rebranding process (Vodafone, 2014). Below is another type of FDI companies may consider in investing in Ghana.

3.3.4. Wholly Owned Subsidiary

With this type of FDI, the foreign investor owns 100 per cent of the assets and liabilities. They also have absolute control over every aspect of the business. In the literature it is stated that a lot of the activities of Multinational Enterprises (MNEs) in the early post-war period were wholly owned enterprises. Young, *et al.*, (1989) have defined this type of FDI and listed some of the advantages and

disadvantages of wholly owned subsidiaries. For example, it has been stated that where there is the need to securely control and protect marketing, manufacturing and technological expertise, this strategy may be the best option. Where companies are confident of the potential in the targeted market and in their products and services in the long-term, this may be the preferred strategy. The company then stands to benefit from the long-term profit, experience and reputation that may result from the investment. Also, where investors find it difficult to locate a reliable partner, wholly owned FDI may be chosen (Gooderham and Nordhaug, 2004). However, there are some disadvantages. This strategy can be expensive. If for some reason, the investor needs to withdraw from the market, the financial cost may be high, and the company's reputation in both international and domestic markets can be seriously affected (Doole and Lowe, 2008). The section below presents the next type of FDI, namely joint venture.

3.3.5 Joint Ventures

Gooderham and Nordhaug (2004) define joint ventures as an agreement by two or more companies to produce a product or service together. Most often there are two companies who come together to form a 50/50 venture. However, in some cases the resources committed by the companies can vary; therefore the joint venture can also be majority owned or minority owned (Cavusgil *et al.*, 2008). This strategy allows the companies involved to pull their tangible and intangible resources in an attempt to create a unique competitive advantage (Doole and Low, 2008). One of the advantages of this strategy is the provision of quick access to different markets, especially where foreign ownership is restricted. The cost of production and other future liabilities are shared (Hill, 2007). Besides, the combination of the assets may create different opportunities which may have been impossible for either of the companies on their own (Doole and Lowe, 2008). The main disadvantage of this strategy is that sometimes there is conflict of interests and culture of the two or more companies involved. Also the level of control and involvement is significantly reduced, compared with wholly owned FDI (Hill, 2007).

The next two types of FDI are in relation to function – whether the subsidiary provides vertical integration or horizontal integration.

3.3.6. Vertical FDI

Vertical FDI is derived from the vertical integration concept, which allows a company to own some or all stages of the value chain (Cavusgil, *et al.*, 2008). Value chain refers to a company's primary activities and related support activities put together for the purposes of creating value for customers (Kotler, 2000). The primary activities in this definition refer to all supplies and inbound logistics, operation or processing functions, distribution and outbound logistics, sales and marketing activities and services after the product or service has been acquired. Related support activities of the company refer to the companies' general administration, human resource management, technology, research and development and systems development to achieve efficiency at the various stages of the company's primary activities.

With this type of FDI, a company may invest resources and acquire significant control and involvement in a foreign company for the purposes of either backward integration (to provide inputs for foreign or domestic production) or forward integration (to market and sell its domestic and foreign products). The main advantage of vertical FDI is that significant part of the value chain which concerns the company in question is managed more securely, efficiently and effectively.

3.3.7. Horizontal FDI

The term horizontal FDI, was derived from the concept of horizontal integration. It is a situation where a company invests in a foreign company or market at the same level of the value chain. The service industry provides good examples of this type of FDI in Africa. For example, Barclays' investment in Absa in South Africa could be classified as horizontal. Another example is Microsoft's acquisition of a

company in Montreal which produces software to create movie animations (Cavusgil, *et al.*, 2008). The main advantages are the opportunity to create or increase economies of scale, improve profitability and expand the range of market offering, and it also decreases competition.

This research focuses on all types of UK FDI in Ghana. However, in order to establish whether UK companies have preference for particular types of FDI, companies were asked to indicate their choice of entry mode. The categorisation of the companies would be useful information for potential investors in confirming the popular entry mode.

The next section looks at factors that may affect investors' decision to invest or not to invest in a particular market through the FDI strategy.

3.4. Determinants of FDI

The extant literature is replete of research on determinants of FDI. Dunning's (1993) Ownership Advantages, Locational Advantages and Internalisation (OLI) paradigm explains the three main advantages companies exploit when they invest in a foreign country, namely ownership, locational and internalisation advantages. This section presents the determinants, using this the OLI framework, as it is believed to be robust, dominant and influential in FDI analysis (Deichmann, 2010; Lundan, 2010; Cantwell, *et al.*, 2009; Roberts, *et al.*, 2008; Stoian and Filippaios, 2008; Pinho, 2007; Dunning, 2001 and 2000).

First, there is sometimes the need for companies to exploit ownership advantages, and this could be done more efficiently by investing abroad. Ownership advantage means for companies to invest in a foreign market they must possess some assets which give them competitive advantage (Prahalad and Hamel, 1990). Wells, (1986) states that companies entering a foreign market incur additional costs in areas such as marketing, and communicating between the corporate headquarters and the subsidiary. He also argues that some policies in some countries may

discriminate against foreign companies, and for a company to be successful in spite of these disadvantages, it must have assets or skills which significantly differentiate it from local companies. Examples of these assets are technological capacities and product innovations (Galan and Gonzalez-Benito, 2001). However, not all of a company's ownership advantages can be transferred from the home market to a different market (Erramilli *et al.*, 1997). For this reason if companies want to invest in Ghana for instance through FDI which requires higher resource commitment, there is the need to assess factors that are transferrable and those that are not. According to Pinho (2007) companies would prefer high control entry mode (FDI, for example) if their ownership advantages are transferrable as this will offer them a better opportunity to protect their knowledge and differentiated products.

The second part of the OLI paradigm is about locational advantages. This part of the paradigm answers the question, what will locating an operation in Ghana, for example, offer a company as compared to other countries? Asiedu (2002) categorises locational advantages into market-seeking and non-market-seeking, depending upon the motive of FDI. Where there is market-seeking FDI, goods are produced and sold in the host countries. Investors are likely to consider the size and growth rate of the host country as a major determinant of market-seeking FDI (Musila and Sigue, 2006; Bradley, 2002; Wint and Williams, 2002; Root and Ahmed, 1978). These are considered in terms of population, salary levels, disposable income and current account balance (Schneider and Frey, 1985; Agarwal, 1980). On the other hand, if FDI is non-market-seeking, goods are produced in host countries but exported abroad. In this case availability of natural resources and required labour at a relatively low cost would be paramount.

Third, a company may enter the international market in its quest to internalise transactions within the value chain. This is particularly important because the ability of companies to survive the increasingly competitive environment also depends on monitoring the whole value chain and value system.

The value system is a concept that recognises the fact that a company does not operate in isolation but rather as part of a network of value chains of other companies. This is what Kotler (2000) refers to as a value-delivery network. This means that for a company to be truly successful and create the best value for customers and also to take advantage of various opportunities for profit maximisation, it must not just monitor its own value chain but also that of its suppliers and buyers. The value system of a company therefore involves the value chains of the company's suppliers, the company itself, their distributors and customers (Omar, 2009).

Below are some of the determinants of FDI as identified in the literature, starting with the locational variables:

3.4.1. Natural Resources/Raw Materials

It is believed that, companies, through their internalisation of their supply chain process, may choose to set up subsidiaries close to the source of their raw materials which may be natural resources (Hill, 2007). An example of a UK company currently located close the source of their raw material is Blue Skies Limited (Appendix L), located in Ghana, South Africa, Egypt and Brazil (Osei, 2011). This company processes fresh cut fruits from these countries and exports them to European markets. In the UK, some of the major retailers Blue Skies supplies fresh cut fruits are Waitrose, Marks and Spencer and Sainsbury's. Musila and Sique (2006), state that this variable positively and significantly correlated to inward FDI in the past. However, in spite of the fact that Africa and Ghana in particular continue to abound in natural resources (Pare, *et al.*, 2010; Ndikimana and Abderrahim, 2010; Tougiani, *et al.*, 2009; Dadzie and Johnston, 2008; Marfo, 2008; Mmieh and Owusu-Frimpong, 2004), the sub-region's global share of FDI has actually declined (Bezuidenhout, 2009; Musila and Sique 2006). Dadzie and Johnston (2008), for example, state that Ghana's economy is based on export of cocoa, and minerals such as gold, diamond, bauxite and manganese.

The extent of influence of availability of natural resources has been examined in the literature. Overall, it is acknowledged that expansion of natural resources definition to include oil and gas has positive effect on inflow of FDI (Kolstad and Wiig, 2011; Asiedu, 2006). Furthermore, an interview with 81 UK, Swiss and German companies revealed that 40 per cent of the companies were influenced in their decision to invest in the South African Development Community by local raw materials (Mwilima, 2003). This present study did not include companies involved in the exploration of oil, gas, and mineral resources, therefore this variable was not included in the conceptual framework for this research. In fact it has been suggested that the days when Africa attracted FDI mainly because of natural resources are over (Musila and Sigue, 2006). Therefore it is important to expand the scope of FDI research by focusing on the non-extractive companies.

3.4.2. Geographical Location

The extent to which geography is significant in Ghana as far as UK investors are concerned has not been explored. There is empirical evidence that geography affects the decision as to whether or not to invest in a particular country. Companies tend to expand their investments into neighbouring markets. For example, as of 2001, South Africa had as much as 46 per cent of its FDI in Mozambique, 18 per cent in Malawi and only 8 per cent in the whole of West Africa (Henley, *et al.*, 2008). This is in agreement with the regionalisation hypothesis (Rugman and Oh, 2008; Rugman and Li, 2007; Rugman and Verbeke, 2007). They suggest that most multinational enterprises cannot exploit their firm-specific advantages globally. One of the reasons for this situation is the relatively high control and coordination cost over a wider geographical and economic zones (Rugman and Oh, 2010). Therefore European companies tend to internalise more within Europe, the same way as North American companies prioritise investment within NAFTA (countries belonging to the North American Free Trade Agreement). However, research carried out by Luiz and Charalambous (2009) revealed that

geographical proximity is not statistically significant as far as South African financial services companies are concerned. Their study focused only on a particular industry (financial services), and concentrated on South African companies investing within Africa. Therefore, it is not surprising that this variable was found to be insignificant, as Rugman and Verbeke (2007) suggest that firm-specific advantages which may not be transferrable across regions may indeed be 'fine-tuned' to suit the host country within the region. Besides, 'the liability of intra-regional expansion appears to be much lower than the liability of interregional expansion' Rugman and Verbeke (2007: 201). They continue that it costs more in investing in other regions, compared with doing business in the same region. It may therefore be hypothesised that Ghana may be disadvantaged in attracting FDI from the UK partly due to geographical distance factors.

It has been stated that Africa's low volumes of investment and economic growth are a result of deeper underlying factors, one of which Naude and Krugell (2007) believe is geography. In this regard, landlocked countries are poorer than coastal countries. Therefore geographical considerations for companies exploring investment potentials in coastal countries like Togo and Ghana would be different from those entering a landlocked country like Niger or Mali.

However, physical or geographical distance has not been included as one of the variables to be investigated in this study, as this research is mainly focused on determining variables that can be nurtured or enhanced to make Ghana a more attractive investment destination for UK companies. Distance as a concept includes other dimensions, including culture, and below is a discussion of cultural distance.

3.4.3. Distance Factors

With reference to internationalisation theories, especially as espoused in the works of Dunning (1973); Johanson and Valhne (1977) and more recently by Malhotra, *et*

al., (2009), Chidlow and Young (2008), and Rugman and Verbeke (2008a), it has been highlighted that companies tend to invest more within their geographical location. Rugman and Verbeke (2008b) in reference to their earlier research in 2004 and 2007 established that most of the world's top 500 companies pursue regional rather than global expansion strategies. Buckley, *et al.*, (2007) also highlighted what they referred to as incremental or stages process to company internationalisation, where companies are influenced by geographic distance. This means companies generally tend to start the process of internationalisation by investing in countries which are relatively close geographically to home markets. Kang and Kim (2010) also reveal a negative relationship between physical or geographical distance and FDI. Essentially as UK investors are concerned, Malhotra, *et al.*, (2009) make reference to a research conducted by Clark and Pugh (2001). This research revealed that the first three countries British companies target for investments are all geographically closer than subsequent locations. Rugman and Verbeke (2007) also believed that UK FDI is highly intra-regional.

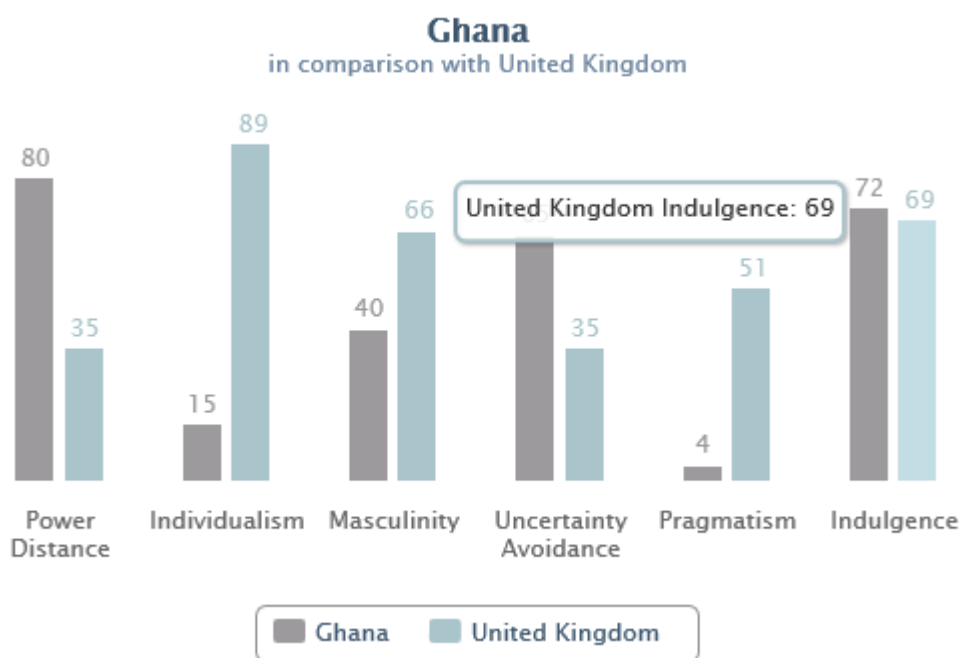
The second distance factor is Cultural Distance. Section 3.4.4 defines cultural distances and illustrates the difference between UK and Ghana, using Hofstede's cultural dimensions (also see Vecchi and Brennan, 2009; Avery, *et al.*, 2008). It has been established empirically that cultural distance affects mode of entry into a foreign market (Malhotra, *et al.*, 2009). They made reference to research by Weitzel and Berns 2006; Pothukuchi, *et al.*, 2002; Ring and van de Ven, 1994, and established that high cultural distance would normally discourage a preference for high involvement and control strategy. Below is further discussion of the cultural distance variable:

3.4.4 Cultural Distance

Culture has been defined in many ways. Katsioloudes and Hadjidakis (2007: 34) quoted one of the earliest definitions which was given by Tylor (1871) as 'that complex whole which includes knowledge, belief, art, morals, custom, and any

other capabilities and habits acquired by man as a member of society'. It is believed that culture affects consumer behaviour (Omar, 2009). It is therefore not surprising that cultural differences between the investors' home country and host country is a determinant of FDI (Quer, *et al.*, 2007). The figure below taken from Hofstede's personal website illustrates his perception of the cultural dimensions between the UK, and Ghana:

Figure 3.1: Cultural dimensions



Source: Hofstede, (2014)

Power Distance: refers to the way different societies deal with inequalities in power that exists among people. It is the extent to which members in society (both leaders and followers) accept that power can be distributed unequally. That is, the extent to which inequality between people is considered as normal. From the above index, Ghana has a relatively high power distance, when compared to the UK. The power distance difference is very significant here, as Ghana scored more than twice as much the UK. This implies that people from the UK generally are more likely to expect equality in power than people in Ghana. According to

Cavusgil *et al.*, (2008) power distance may determine whether organisations need to focus power at the top or lower level employees. Investors need to take into consideration how they would structure the foreign company. That is, investors need to decide whether to structure the subsidiary to suite the culture of the organisation or the culture of the host country. It may appear from the index above that the people of Ghana are more likely to accept concentrating power at the top than at the lower level, which is different from that of the UK, and investors need to consider their culture and how to integrate this new way of thinking into the organisation or adapt their business culture.

Individualism

This seeks to explain whether individuals in society are more likely to look after themselves and their nuclear family only and neglect the needs of the extended family and society as a whole. From Hofstede's framework, people from the UK are more than five times likely to concentrate on satisfying their individual needs than Ghanaians. Ghanaians are more collectivists than people from the UK.

Masculinity

This is contrasted with femininity and refers to the extent to which society accepts predominantly masculine values such as money, success, personal accomplishments and leadership (Blodgett, *et al.*, 2008). Therefore, people in these societies tend to be more competitive, aggressive and ambitious. A more feminine society, on the other hand is more interested in caring for others and the quality of life. As a result they exhibit values such as humility, modesty and nurturing. From Hofstede's scores, UK is more masculine, and individuals in the UK are more likely to exhibit the values for masculine society listed above, whereas Ghanaians are more likely to exhibit the values of a feminine society.

Uncertainty Avoidance:

This refers to the extent to which groups of people tolerate risks and uncertainty in their lives (Cavusgil, *et al.*, 2008). From the above scores, Ghanaians are more likely to create institutions and take measures to ensure job and financial security,

reduce ambiguity and minimise risk. Whilst people in the UK also avoid uncertainty to some extent, they tend to be relatively comfortable with taking risks, being entrepreneurial and tolerate other people's opinions.

Pragmatism

This refers to the extent to which people believe things happening around them could be explained. From figure 3.1, the people of Ghana have the desire to explain as much around them as possible, and they have great respect for traditions, exhibit less tendency to save for the future and focus on achieving quick results.

Indulgence

This refers to the extent to which people control their desires and impulse as a result of how they were brought up. From figure 3.1, the people of Ghana are more likely to have fun and enjoy their lives, exhibiting a great sense of optimism, compared with the people of the UK. However, the distance here between the two countries is close (69 for the UK and 72 for Ghana).

From the Hofstede's cultural dimensions above, there is a very significant difference between Ghana's culture and that of the UK. Where there is a greater cultural distance between the country of origin and host countries, especially as shown by the first five types of culture from Hofstede's framework, investors may prefer FDI. This will give them maximum control and the opportunity to restructure the organisation to suite their culture and the current environment. However, some investors may prefer locations with similar cultural orientations in order to exploit cultural synergies that may be available. Erramilli and D'Souza (1995), for example suggested that increasing cultural distance between host and home countries correlates positively and significantly with preference for non-FDI entry modes. They continued that this is as a result of the greater uncertainty cultural distance causes, which makes companies cautious in making huge resource commitments which are normally associated with FDI modes.

Similar to many theoretical frameworks, the Hofstede's cultural dimensions has been questioned in its validity, as for example, it is unable to account for intra-cultural differences (Blodgett, *et al.*, 2008). In relation to pragmatism and indulgence, Ghanaians may prefer immediate gratification to long term gains, not necessary because that is their culture, but because the poverty level is such that people may not be able to focus too much into the future (Hinson, 2011; Karabegovic and McMahon, 2006). Furthermore, this current research focuses on determinants that can be practically implemented to improve the retention and attraction of FDI in Ghana. From Erramilli and D'Souza (1995), there is debate whether cultural distance rather favours FDI or if it is a disadvantage to FDI. Due the above factors, the cultural distance was excluded from this study.

3.4.5 Political Risks

Political risk has been described in many different ways. For example, it has been described in terms of the probability of change of government, violence in the form of strikes, assassinations and riots. However, perhaps the most important definition which investors may particularly be interested in will be the probability that investors will be allowed to conduct their businesses in the host countries without political interference. As of 2002, there were as many as 400 British companies in Zimbabwe, including BP, Barclays Bank and British American Tobacco, despite the political instability and threats of nationalisation (BBC, 2010). Smith-Hillman and Omar (2005) expand the definition of political risks to include all discriminatory regulations. This may also include policies on repatriation of wealth generated from host countries and protection of some sectors from foreign involvement.

For the purposes of this research, political factors in Ghana have been described as foreign investors' perception of the probability of frequent change in government, political tolerance, level of corruption and good general governance (Luiz and Charalambous, 2009) to reduce bureaucracy (Demirbag, *et al.*, 2008) and interference, and allow the repatriation of profits. The political factors create

what Erramilli and D'Souza (1995) refer to as external uncertainties. They suggest that external uncertainty may rather correlate positively with FDI, especially when the company in question is large, due to their experience and ability to absorb risks.

The views of researchers on how significant political risk is to FDI decision are divided. Some believe that the presence of democracy and political stability have positive relationship with FDI. 'Political stability is recognised as important by more investors than any other macro level political or economic factor', (Kehl, 2007: 5). In the same way, it is expected that investors will be cautious before choosing any entry strategy that will require long term commitment of resources, if the level of political risk is perceived as significant (Erramilli and D'Souza 1995). This view is shared by Edwards, (1990) and Schneider and Frey, (1985) who found that political risk rather has a negative relationship with the flow of FDI. Another school of thought is that political risk is empirically insignificant as far as FDI decision is concerned, especially if the motive is resource-seeking (Asiedu, 2002). An example of this in Africa is the high FDI in Angola in the 1980s, though there was political unrest in the country. As Africa is considered as an 'inherently risky' continent, (Asiedu, 2002: 115) it would be interesting to find out if the risk perception empirically plays any role at all in UK investors' decision to enter the Ghanaian market through FDI. This research confirms which political factors are important to the UK companies in their investment in Ghana. Table 4.1 presents the list of these political factors.

3.4.6. Infrastructure

For some authors, good infrastructure has a positive relationship with FDI (Musila and Sique, 2006; Wheeler and Mody, 1992). Therefore this current research examines the extent to which UK companies found infrastructure to be important in their investment in Ghana. Infrastructure is usually measured by the number of mainline telephones per 1000 population. Asiedu (2004a) improved the

measurement of this variable by including the following in the calculation as she identified that measurement of this variable by the above method was deficient in terms of reliability of infrastructure. She suggested the inclusion of the following for the calculation of this variable for African countries:

- The sum of telephone main lines per 1000 people and the number of mobile phones per 1000, (as a measure of availability of infrastructure).
- Electric power transmission and distribution losses as a percentage of output (to measure reliability of infrastructure in an area).
- Gross fixed capital formation as a percentage of GDP, to measure development of infrastructure.

She described gross fixed capital in terms of land improvement, construction of roads, railways, schools, commercial and industrial buildings. From her estimation between 1980 and 1999, though availability of infrastructure increased by 71 per cent in Sub-Saharan Africa, this was not enough as the average for all developing countries for the same period went up by 158 per cent. There was also relative decline in the reliability of infrastructure for the same period compared with the average for all developing countries. Sub-Saharan countries also spent less on development of physical infrastructure such as roads and railways. This resulted in a decrease in physical infrastructure of 13 per cent, compared with an increase of 3 per cent for all developing countries (Asiedu, 2004a).

The inclusion of physical infrastructure in the estimation of availability and reliability of infrastructure is significant because good quality road and transport systems are underdeveloped in Africa. Most roads and railways are not in good condition (Smith, 2008; Selva, 2005). Whether FDI is market-seeking or non-market-seeking, goods produced need to be transported to the consumer at a competitive cost. According to Nwankwo (2000), the quality and adequacy of infrastructure is crucial in creating value for customers and in creating differential advantage. He also explains that in Africa, poor infrastructure increases transaction costs and entry barriers for businesses, and reduces competitiveness and access

to domestic and international markets. Furthermore, supply of electricity is unreliable in West Africa in general and in Ghana in particular (IMF, 2013).

The above assessment implies that Ghana, which is part of the Sub-Saharan countries, is lagging behind in terms of availability, reliability and development of infrastructure. This research therefore determines how crucial infrastructure is as a determinant of UK FDI to Ghana. The next section presents another variable identified in some studies as a determinant of FDI.

3.4.7. Financial System and Economic Factors

For the purposes of this research, exchange rate volatility, factor costs, the state of the Ghanaian economy and the effect of sub-regional integration on FDI have been considered as economic factors.

It is believed that the effect of exchange rate management could have an impact on the inflow of FDI. One of the few researches on Ghana in this area was done by Kyereboah-Coleman and Agyire-Tettey (2008). They looked at the effects of exchange rate volatility on FDI in Ghana. They used time series data for their analysis and concluded that real exchange rate volatility has negative and therefore significant effect on FDI inflow. Similar studies have been done in other areas outside Ghana. For example, Russ (2008) suggests that assuming exchange rate volatility will automatically affect investment decision making may be over simplistic. This is because whether the volatility will encourage or discourage FDI depends on whether the shocks started from the host country or the home country. In applying Russ' assertion to this study, the effect of exchange rate volatility depends on whether the trigger of the volatility started in the UK or in Ghana. This research however investigates how relevant exchange rate shocks are to UK investors' decision to invest in Ghana, regardless of where the shocks started.

Besides, the cost of land and facilities may have an influence on the decision to invest in a particular country or sub-region (Cavusgil, *et al.*, 2008). Countries which

provide cheaper and easier access to land and facilities may be more attractive to FDI investors than countries where accessibility is difficult.

Another factor that influences FDI is the state of the local economy (Cavusgil *et al.*, 2008). African countries in general are lagging behind when compared to all other developing regions (UNCTAD, 2005). One of the methods of measuring the development of a country is by using the United Nations Development Programme (UNDP)'s Human Development Index (HDI). The UNDP describes HDI as a composite index which measures the average achievement of countries using three main dimensions of human development, namely a long and healthy life¹, knowledge² and decent standard of living³. From the Human Development Index for 2013, Ghana is ranked 135th out of 186 countries (UNDP, 2013), placing them in the medium human development category – the same category they had in 2008 (UNDP, 2008). The UNDP (2013) continues that sub-Saharan Africa has achieved rapid economic growth, which has enhanced opportunities for human development to progress, with income also rising. This is a pointer to the region's potential to host viable businesses.

Furthermore, the extent to which the sub-regional integration affects UK FDI in Ghana has not been explored in the literature yet, though it is believed it could affect FDI decisions in some countries (Cavusgil, *et al.*, 2008). West African countries, with the exception of Mauritania, are unified by the Economic Community of West African States (ECOWAS). Its membership includes Benin,

¹ This refers to the number of years a new-born infant could expect to live if prevailing patterns of age-specific mortality rates at the time of birth stay the same throughout the infant's life (life expectancy).

² This is measured by two education indicators, the average number of years of education received by people ages 25 and older, converted from educational attainment levels using official durations of each level (the mean years of schooling); and the number of years of schooling that a child of school entrance age can expect to receive if prevailing patterns of age-specific enrolment rates persist throughout the child's life (expected years of schooling).

³ This is measured by the aggregate income of an economy generated by its production and its ownership of factors of production, less the incomes paid for the use of factors of production owned by the rest of the world, converted to international dollars using purchasing power parity rates, divided by midyear population (gross national income).

Burkina Faso, Cape Verde, Côte d'Ivoire, The Gambia, Ghana, Guinea, Guinea-Bissau, Liberia, Mali, Niger, Nigeria, Senegal, Sierra Leone and Togo (Lee and Leal, 2014). ECOWAS has facilitated greater economic integration and cooperation in other sectors such as ensuring security and management of water resources (UNPD, 2013). Akwara, *et al.*, (2013), also examined the role of ECOWAS in the provision of basic infrastructure, political stability, peace, security and clearance and settlement systems of financial obligations and negotiation of trade and investment deals with other regional blocks. Other studies have also focused on ECOWAS and the effects on businesses, including FDI, within and outside the regional block (Ackah, 2013; Usman and Ibrahim, 2012). This current research therefore investigates the extent to which the enhanced market size through ECOWAS has any effects on UK FDI inflow to Ghana.

3.4.8. Private Investment in Host Countries

The volume of private investment in a country may be a determinant of FDI. A study by Ndikumana and Verick's (2008) involving 38 countries in the Sub-Saharan Africa confirmed this. Their study used econometric analysis to investigate the correlation between private domestic investment and FDI in Sub-Saharan Africa. The results confirmed that high volume of private investment attract FDI, as active and successful private investment provides an indication of potential return on investment. This view has also been echoed by Lauthier and Moreaub (2012) as they also found that domestic investment attract FDI. The two research findings above are in agreement with the internationalisation theory. Internationalisation theory, according to Johanson and Vahlne (1990) can be described as a learning process by establishing and building relationships to acquire knowledge about a foreign market (Zidonis, 2007). As far as FDI is concerned, foreign companies may choose to acquire the required knowledge by acquiring an existing private company for the purposes of inheriting both tangible and intangible assets that will give the foreign company a competitive advantage. It is also stated in the literature that the more reliable knowledge a company has about a foreign market, the more

it may be prepared to commit resources to the market, as a result of the perceived reduction in risks (Erramilli and Rao, 1990). However, up to now there has not been any research that has focused on the extent to which UK companies would be influenced by the presence of other companies in Ghana. For the purposes of this current research, the effect of private investment on UK FDI was measured by the concept of agglomeration, (the economic benefits to be derived from the presence of other companies). The agglomeration concept has received wider coverage in the literature and encompasses the presence of other companies, including both domestic and foreign companies located in the host country (Procher, 2011; Tan and Meyer, 2011; Konrad and Kovenock, 2009; Du *et al.*, 2008; Bronzini, 2007; Dunning, 2000).

3.4.9. Openness

Another determinant as identified in the literature is the level of openness of the host country, which is measured by the ratio of trade to GDP (Asiedu, 2002). The level of openness refers to the extent to which host countries have put restrictions in place to regulate what is regarded as market imperfections. Cohen and Winn (2007) identify four types of market imperfections, namely inefficient companies, externalities, flawed pricing mechanisms and information asymmetries or imperfectly distributed information. Restrictions may include laws to control foreign exchange, competition and natural resources to help reduce the effects of these imperfections. For example, where it is perceived that a company will be inefficient in the utilisation of host country's resources, the government of that country may restrict entry into certain industries (the oil and mining industries for example). Also, if it is perceived that the arrival of a company will have negative effect on others (externalities), for example in terms of competition, such companies may be refused entry into the host country.

There have been a number of regulatory changes in line with the structural adjustment that have facilitated openness in Africa. According to UNCTAD (1995)

some of these changes are the privatisation of publicly held assets, tariff reduction, removal of import quota, freeing of agricultural and energy prices and introduction of positive real interest rates (see Boateng, 2004).

The views on the influence of openness on FDI are split in the literature. It has been documented that whether the effects will be positive or negative depends on the industry. It is reported in the literature that the removal of tariffs in Nigeria and Kenya affected the textile and automobile industries negatively. This was because the removal of tariffs rather paved way for importation of already manufactured goods into the countries, to the disadvantage of companies (including FDIs) who were already operating in Nigeria and Kenya (UNCTAD, 1995). However, Asiedu (2002, 2004) is of the view that openness has a positive correlation with FDI. This variable has been discussed further under political factors. Factors under openness such as tariffs, privatisation and introduction of quotas are all implemented by the host government (Ghana Government, in this research).

3.4.10. Market Size

Extensive research on determinants of FDI lists market size as a major factor (Musila and Sique, 2006; Bradley, 2002; Galan and Gonzalez-Benito, 2001). All publications listed by Chakrabarti (2001) which mention market size as determinant of FDI reveal a positive relationship. This is especially in the case of market-seeking FDI. Asiedu (2002) believes that most of the FDI in Africa is not market-seeking. However, Vodafone's acquisition of Ghana Telecom and Vodacom in Ghana and South Africa respectively are examples of market-seeking FDI. In the financial sector Barclays Bank and Standard Chartered Bank are very strong names in Africa. In all these cases, the size of the market would be relevant to FDI, as there was evidence of market-seeking.

Market Size is sometimes measured in terms of GDP, and this is low in Africa (Musila and Sique, 2006; UNCTAD, 1995). Besides Africa's per capita income is

low (Nwankwo, 2000), and the continent's poverty rate increased from 44.6 per cent to 46.4 per cent between 1990 and 2001 (also see Bigsten and Shimeles, 2007). This may have negative correlation with FDI if the motive is market-seeking. Different companies approach the issue of low levels of disposable income differently. Whilst some companies may be discouraged from investing in the sub-region, other companies may simply be cautious about the volume of resources they are prepared to commit to the market. A strategy adopted by Unilever Nigeria, for example, is to produce fast moving consumer goods such as washing powder, toothpaste and beverages in smaller packets and sachets to make them affordable to the local population (Smith, 2008). However, this may increase cost of production for the company, which may put off some companies from investing in the affected countries. As a result, companies that do not have the required experience and economies of scale like Unilever may either decide not to invest in Ghana, or reduce the volume of resources they are prepared to invest in the country.

3.4.11. Historical Factors

It has been reported in the literature that historical relationship between host country and the home country may have a role to play in the location of companies. As presented in a research paper by Henley, *et al.*, (2008), two-thirds of Indian companies in Africa are located in East Africa because of the historical ties between the home country and the host country. Ghemawat (2001) also stated that the colony-colonizer relationship tremendously increases trade between the two countries if the nature of the colonial relationship was friendly (also see Makino and Tsang (2011)). There are a number of 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.

All the above factors may be considered as locational determinants. Next are some of the ownership determinants (Lopes, 2010; Lundan, 2010; Pinho, 2007;

Newhouse 2006; Galan and Gonzalez-Benito 2001; Ueng, *et al.*, 2000; Chee and Harris, 1998; Erramilli and Rao 1990).

3.4.12. Size of Company

The size of the company may influence it to invest in a foreign market. This is due to the varied ability of companies of different sizes to raise capital, deal with uncertainty and absorb cost (Erramilli and D'Souza, 1995). A larger company has an advantage in exploiting economies of scale (Zhao and Hsu, 2007), absorbing cost (Ogasavara and Hoshino, 2007) and raising capital quicker. Therefore, relatively, a large company will usually be able to deal with risks better than a small company (Pinho, 2007). However, the definition of company size is not clear. What may be a big company in one country may be medium or even small in another country. From IMF Working Paper (2007) a small company has between 2 and 49 employees. A medium company employs between 50 and 249 people, and a company is classified as large if it has more than 250 employees. Besides Soderbom and Teal (2004) categorised companies in Ghana into micro companies if they have less than 6 employees, small companies if they employ between 6 and 30 people, medium companies if they have between 31 and 99 employees and large if they have over 100 members of staff. As this research focuses on FDI in Ghana, Soderbom and Teal's classification above has been used in the analysis of the data (see Chapter 6).

3.4.13. Technological Capabilities

A company may have superior technological capability which could be transferred to other markets for profit maximisation. Companies may prefer to internalise if they have high marketing or technology products. Ghana is not advanced in terms of very high technology (see Osabutey and Debrah, 2012), therefore there is a good potential for some UK companies to become market leaders in their industry

sectors in the host country. It has been suggested that where a company's advantage is in its technological capability, they are more likely to choose wholly owned subsidiary over other entry modes to prevent technological leakage (Chiao, *et al.*, 2010).

3.4.14. Market Knowledge

A company's knowledge of the market or similar markets may have influence on choice of entry mode. A company with knowledge of the market will be aware of the potentials and the best way to exploit them. In accordance with opinions of the proponents of Behavioural Theory, there is a positive relationship between investors' knowledge of foreign market and the level of resources they are prepared to commit to the market (Johanson and Vahlne, 1977). It is believed that if companies are confident in their perceived knowledge of a particular market, they are more likely to commit more resources into the market. This correlation is partly explained by the perceived reduction of risk and uncertainty (Erramilli and D'Souza, 1995; Erramilli and Rao, 1990). Investors are also more likely to be aware of the various stakeholders and how to engage them for customer satisfaction and profit maximisation. It has been suggested that lack of the adequate knowledge about the host country's market conditions will normally make non-FDI the preferred mode of entry (Erramilli and D'Souza, 1995).

3.4.15. Image and reputation of Company

A company with good image and reputation especially in the international market may have a better chance of building a network of stakeholders that will contribute in marketing the products and services of the company. As far as FDI is concerned, Ekeledo and Sivakumar, (2004) believes, where investors are confident in the company's image and reputation, wholly owned FDI would normally be the preferred entry mode. In the same way, a company may initiate joint ventures with

another in order to benefit from its assets such as brand. For example, Acquah (2009) reported of a joint venture between a UK company and a Ghanaian company. In launching a new product, they used the UK companies brand because it was stronger. The above example confirms that the brand reputation alone is not always enough for a company to choose wholly owned subsidiary - other factors such as costs, and the need for instant market share may play a role.

3.4.16. Quality of products

This ownership advantage may or may not be transferrable, depending upon the particular market. In the literature, usually if a company has experience and knowledge about the host country and has the technological capabilities, it is able to produce differentiated market offering for consumers. A company with high quality and differentiated products would normally prefer FDI and franchising (Ekeledo and Sivakumar 2004), to maximise returns.

Though ownership advantages and how transferable they may be may vary from company to company and from industry to industry, it can be said that companies with quality differentiated products are more likely to consider foreign investment than those who do not have these advantages.

3.4.17. Home Country Factors

One variable which is closely related to ownership advantages but is not company-specific is the effect of home country factors on choice of entry mode. Mayrhofer (2004) examined 26 different empirical studies on this subject and came to the conclusion that generally home country factors such as power distance and uncertainty avoidance may influence choice of entry mode. Kogut and Singh (1988) are of the view that a high cultural distance between the host country and home country of the company may suggest a preference for joint ventures. There

are other researchers who believe a high cultural distance is rather positively correlated to the choice for majority owned joint ventures or wholly owned subsidiaries (Padmanabhan and Cho, 1996). It may be concluded that the effect of cultural distance between the home country and host country is inclusive.

Also, some companies may copy strategies adopted by their competitors, including FDI. Therefore if a company from the UK successfully enters the Ghanaian market through FDI, there is a possibility of other companies from the same country to enter the Ghanaian market by the same entry mode. It is presented in the literature that companies from the US would normally prefer wholly owned subsidiary or majority owned joint ventures (Mayrhofer, 2004). This current research evaluates the effect of the presence of UK companies in influencing other UK companies to locate in Ghana, regardless of what entry mode they choose. This is because the purpose of this research is not to attract FDI of any particular mode but UK FDI in the non-extractive industry in general.

Furthermore, competition in host countries may compel some companies to consider internationalisation as the only way to continue to create value for stakeholders. Norvell *et al.*, (1995) believe that many US companies internationalised in the 1980s and 1990s as a result of saturated domestic market and declining profit margins. FDI also offers companies the opportunity to extend the life cycles of their current products. While competition in the home country may explain why a company decides to invest in another country, it is not sufficient to explain which country to locate in. This is because there is competition among countries for a share of trade (Osei and Gbadamosi, 2011; Pappu and Quester, 2010). Therefore home country conditions suggesting that the UK company needs to locate abroad does not explain why they would locate in Ghana, hence this variable was excluded from this study.

3.4.18. Internalisation Advantages

The final part of the OLI paradigm is the need for companies to exploit

internalisation advantages. The internalisation part of the paradigm essentially assesses the cost and benefits to determine how best to exploit ownership advantages (Dunning and Lundan, 2008a). Therefore only the best and unique skills are normally internalised. Sometimes a company may decide to acquire one or more of the value chains to create value for shareholders and customers. Below are some of the reasons why a company may choose to internalise rather than outsource according to Galan and Gonzalez-Benito (2001).

3.4.19. The need to diversify risks:

A company may decide to internalise overseas so that not all of their assets are into production or in one country for instance. For example, a cement processing company may diversify into real estate development overseas. This will enable them to have more returns on their investment when property prices are high, and they can also subsidise the price of cement supplied for the real estate business, if the real estate business is not doing well. Norvell *et al.*, (1995) for instance analysed responses from 188 US manufacturing companies and concluded that the need to diversify markets was the most important determinant for internationalising operations. As this variable only confirms why companies will invest abroad and does not confirm which country to choose, this variable was not included in this study.

3.4.20. The need to control and protect image and expertise:

In a market where consumers sometimes require information about the whole value chain and value system, the company may internalise to create value for customers. For example, in the case of satisfying ethical consumers, a retailer will have more reliable and accurate information about whether their products were ethically sourced or not if the company was also the supplier of the product. The retailer will also be able to monitor the quality of products, thereby improving or maintain the reputation of the company.

3.4.21. The Need to Minimise Costs

Faeth (2009) in agreeing with Buckley and Casson (1976) states that there are some imperfect market situations which could result in an increase in transaction costs in bargaining, enforcement and acquiring information. Examples given were that production and marketing techniques, management skills and component parts could be riddled with imperfections which may create uncertainties, high risks and costs. A company may choose to minimise these imperfections and achieve cost-efficiency by internalising some stages of the value chain and the value system.

It must be emphasised that all three types of advantages associated with the OLI paradigm – locational advantages, ownership advantages and internalisation advantages are considered together before a company decides to invest in a foreign country because they are interdependent (Omar, 2009; Dunning, 2000).

3.5. Some theories of FDI that may apply to UK FDI in Ghana

The sections below provide justification of some theories considered but were not suitable for the purposes of this current research.

3.5.1. Product Life Cycle Theory

Vernon and Wells, (1986) state that companies from innovating countries move their production activities into developing countries when their product life cycle reaches its mature stage. The proponents of this theory postulate that some products go through introduction, growth, maturity and decline phases in their life-cycle.

At the introductory stage, new products are developed to satisfy the needs of the home market (UK, for the purposes of this research). It must be emphasised that home market does not only refer to the country in which the factory of the company

in question has been located, but also all surrounding markets products and services could be distributed to efficiently and effectively (Chee and Harris, 1998), such as the EU countries in the case of UK companies.

The growth stage is where sales begin to increase after the new product has been launched. However, at this stage, other companies begin to compete in the market by copying the technology or by launching a substitute to the market offering where possible. The company may add more features to the product in order to continue to differentiate themselves from the competition (Fang, 2013; Omar *et al.*, 2013; Krishnamoorthi, 2012).

At the maturity stage of the product, sales reach their peak and start to fall. This is because competitors become successful in offering substitutes to the product in question. As the competitors sometimes have the opportunity to copy the technology, they are able to produce their market offering at competitive prices. To be able to maximise their ownership advantages, especially their profit attributable to research and development, technology and experience, the company may at this stage consider other markets where competition is not as fierce (Ghana for the purpose of this research). Companies continue to communicate with consumers and distributors about the benefits of their market offering, but generating more sales and profitability may depend on what competitors have to offer. According to Chee and Harris (1998) the benefits of moving to a developing country becomes more apparent at this stage.

When a product is at the decline stage of its life-cycle, it generally means a new product has been developed in the home country to replace the first product. At this stage, sales and profits begin to decrease. Therefore production in the home country is normally stopped. Any further demand from the home country is satisfied by importing from the host country (in Ghana) for instance, if cost will permit this. However, the life-cycle at the home country could be revived or extended through innovation.

Following an assessment of the profile of some of the UK companies identified in Ghana in 2010, it was apparent that this theory would not be applicable. For example, a case study on one of the companies revealed that just after a year of the company's start in the UK, it opened its subsidiary in Ghana without any evidence of going through the stages of the product life cycle (Osei, 2011). Products life-cycles have become shorter after the 1980s due to technological advancement. Innovations are taking place all the time and new products are being imitated (Cavusgil, *et al.*, 2008). Also, a product may not necessarily go through all phases of the life-cycle. This is because some products (Dell computers for example) are put together according to the customer's specification and may never be produced to similar specification until another request is received. Therefore while no orders have been received for the product of exactly the same specification, it is unclear whether that product's life cycle has come to an end or not (Omar, *et al.*, 2013). Besides, due to information technology new products launched in one country may be available to consumers in another country pretty much at the same time. For example, according to Hill (2007), laptop computers, compact discs and digital cameras are sometimes introduced in the United States, Japan and some advanced European countries at the same time.

Due to the above, the product life cycle theory could not explain why some UK companies have located operations in Ghana. Besides, it has been stated that this theory is rather more effective in explaining licensing and franchising and not so much of why companies invest abroad (Chee and Harris, 1998). As a result of these facts, the product life cycle has not been adopted for this research.

3.5.2. Internalisation Theory

Some of the proponents of this theory are Caves (1971), Buckley and Casson (1976) and Dunning (1993). The theory posits that companies have an incentive to bypass imperfect market in the intermediate product (Buckley and Casson, 2009). For example if an imperfect market is likely to take advantage of the supply of raw

materials to a UK company, this company may bypass that by making the supply of the raw materials part of its business (backward integration), unless cost margins do not allow the company to internalise. There may also be incentives for companies to forward integrate, for example, if a company decides not only to manufacture a product but retail it as well. For example, Blue Skies Limited (Appendix L) are not only producing fresh juice in Ghana, but are also retailing the product, in addition to supplying fresh fruits to European retailers (Osei, 2011).

This theory, as far as the study of FDI is concerned explains why a company may enter an international market by investing significant resources to have management control or influence over one or more of its value chains rather than outsourcing them (Buckley and Casson, 2011; Cavusgil, *et al.*, 2008). For example, a company may acquire an overseas company solely to market and sell its products manufactured in the home country.

The internalisation theory is related to Dunning's OLI in the description of the I leg of OLI. Therefore aspects of the internalisation theory are used in the eclectic paradigm adopted for this study. However, to view the location of UK FDI in a multi-faceted approach, the internalisation theory alone is inadequate, comparing what Buckley and Casson expressed about the internalisation theory and the OLI paradigm. First they appeared to have accepted the inadequacy of the internalisation theory by stating that it may be used in combination of other theories such as the trade theory and organisational theory (Buckley and Casson, 2009). They also describe the OLI as more encompassing than the internalisation theory (Buckley and Casson (2011). These two facts, combined with Dunning's assertion that the OLI still holds regardless of the motive of investment (Dunning, 2001) make the OLI paradigm appropriate in comparison with the internalisation theory.

3.5.3. Internationalisation Process Model

This model was developed by Johanson and Vahlne (1977, 1990), and it

postulates that a company may gradually increase its foreign resource commitment after acquiring knowledge about the foreign location and other countries (Meyer, 1998). This model may explain some FDI in Ghana, especially in circumstances where foreign companies invest in former colonies. This will enable companies to exploit advantages associated with areas such as common language and cultural similarities, as well as the state of political relationships between the home and host countries (Meyer, 1998). This model has not been adopted in this research. Blue Skies Limited (Appendix L) set up in Ghana just a year after its headquarters was set up in the UK without any gradual or experiential knowledge in Ghana or any other African country. This model is therefore not appropriate for the purposes of this study.

3.5.4. Heckscher-Ohlin Theory

This theory explains international trade by stating that countries will export goods that make extensive use of factors that are abundant in the country and import goods that make extensive use of factors that are scarce in the country (Chee and Harris (1998). This theory departs from the theories of Absolute Advantage and Comparative Advantage which rather rely on how productive countries are in the provision of a particular market offering (Hill, 2007). The Heckscher-Ohlin theory relies on factor endowments such as land, labour and capital, and these factors may explain why some UK companies invest in Ghana, to take advantage of the factors of production in Ghana to maximise profit. The major weakness in this theory is its inability to accurately predict trade patterns (Hill, 2007). Besides, most research to explain why companies choose FDI as the preferred entry mode go beyond factor endowments as determinants. Determinants of FDI may include cultural distance (Quer, *et al.*, (2007), market size (Luiz and Charalambous, 2009, Bradley, 2002; Galan and Gonzalez-Benito, 2001; Musila and Sigue, 2006) and openness (Asiedu, 2002). Therefore the Heckscher-Ohlin has not been adopted for this study.

The above sections (3.5.1 to 3.5.4), discussed some of the alternative theories to the choice of the eclectic paradigm for this research. It revealed some of the weaknesses of those theories and in effect justified the choice of the eclectic paradigm. The section below presents a brief discussion of some of the importance FDI, and therefore justify why the determinants of FDI need to be studied for Ghana to benefit from some of the advantages presented below.

3.6 Importance of Foreign Direct Investment to Host Economies

Some researchers are sceptical about the real impact of FDI (Nkamnebe, 2006). It is noted that there are generally job losses when companies enter foreign markets through acquisition. There are also environmental concerns, and it is also believed that the only reason to invest is profit maximisation for the investor. Shell, for instance has been criticised for their investment in the North Sea which is believed to have created environmental pollution. They have also been alleged to have supported the repressive regime in Nigeria (Chee and Harris, 1998). Easterly (2002) also alluded that despite the expressed interest from British, American and German companies in investment in Ghana in the 1950s as a result of the great sense of optimism after the country's independence, by the time of publishing his book, he described Ghana as being as poor as they were in the 1950s - a situation he described as real disaster. Though Easterly attributed the disaster to the political turmoil which followed the regime of the first president of Ghana, Kwame Nkrumah, it is safe to say that investment needs other locational factors such as favourable political leadership to translate the optimism into results. Therefore, some advantages remain in relation to the impact of FDI, which explain why countries are competing for FDI. Below are some of the potential advantages (Tienhaara, 2006):

3.6.1 Technology Spillovers

This has been defined as diffusion of technology in a geographical area to augment human capital and improve productivity of local companies (Hatani,

2009). Companies may change their technologies to suit the conditions of the host countries (Hill, 2007; Naudé, and Krugell, 2007). These technologies may then be copied by local companies. Also local employees, after acquiring the technological knowledge and skill may leave the foreign company and work for a local company or set up their own businesses, and this could contribute to the economy as a whole. However, Hatani (2009) is of the view that technology transfer from MNEs to host economies is not automatic. A way to transfer technology mentioned in Hatani's research is policy intervention to encourage interaction between local and foreign companies, as is the case in China. For example, it is believed that if local companies are involved in the value chain, technological knowledge in the supplying industry could be improved. Omar (2009) believes that the introduction of foreign technology is part of capital accumulation, and explains the improved growth rates in some host countries. It must be emphasised that the potential to benefit from technology transfer depends on the country's absorptive capacity (De Vita and Kyaw, 2009; Borensztein, *et al.*, 1998). For this reason (Osabutey and Debrah, 2012) have called for policy initiative from the Ghana Government for cooperation among tertiary institutions, businesses and the government to develop the country's technological capacity.

3.6.2 Creation of Employment:

FDI creates employment for the host countries and helps reduce unemployment problems (Griffin, *et al.*, 2007, Daniels, *et al.*, 2004). Sometimes FDI creates demand for inputs from host countries. In an attempt to meet these demands, both foreign and local companies may recruit additional employees, thereby creating employment opportunities for host countries.

3.6.3 Human Resource Development

It is believed that foreign companies may be actively involved in knowledge transfer in host countries, through staff training (Omar, 2009, Hill, 2007). There is also possible transfer of management skills to local managers (Mwilima, 2003),

and these help in human resource development of host nations. Blue Skies (Appendix L), through their Joint Effort Enterprise initiative, gathers the management team from all their subsidiaries every year to discuss current and future challenges and to find solutions. This enables the managers to learn more problem-solving skills and to learn from other experiences. Blue Skies are also directly involved in education projects in Ghana, thereby contributing in the human resource of the country. This is consistent with Barthel, *et al.*, (2011) who also suggested that foreign companies offer more training to their employees than their domestic counterparts.

3.6.4. Productivity

As often the multinationals have the required expertise, they are able to improve productivity by providing the required training to employees to reduce machine downtime and lost worker time. Also in some cases, foreign companies invest in idle or underutilised resources such as land, labour, materials or equipment, and convert them into products and services that will benefit both the investor and the host economy (Daniels, *et al.*, 2004). For example, where FDI is market-seeking, foreign investors may convert idle resources into previously imported products, thereby improving the country's balance of payment.

3.6.5. Value Creation for Consumers

Where FDI is market-seeking, it is possible for consumers in the host countries to get goods at a cheaper price, when compared to imported goods. Besides, the quality of goods and services in general is likely to improve; as a result of the increased competition FDI creates (Omar, 2009). For example, the Ghanaian consumers in the telephone industry have a wide choice of telephone service providers to choose from as a result of FDI. MNT, Vodafone, Globacom and Airtel are all foreign companies located in Ghana, competing with local companies. They

all have to deliver a perceived value to the Ghanaian customer or else they are likely to switch to a different service provider.

3.6.6. Balance of Payment Problems

It is believed that if a country faces trade deficit, it must solve this by reducing its reserves or by attracting foreign capital (Daniels, *et al*, 2004). Most African countries, including Ghana are poor and do not have significant reserves (IMF, 2013; Easterly, 2002). Also, from the IMF Factsheet for March 2009, Ghana qualifies for the Heavily Indebted Poor countries (HIPC) scheme (also see Beraho, 2007). This is a confirmation of Ghana's status as a poor country and may not have the required reserves to solve any balance of payment problems. Therefore a solution that may be available is attracting foreign capital in the form of foreign aid and FDI. However, Daniels, *et al.*, (2004) state that foreign donations to developing countries have stagnated; therefore attracting foreign investment remains the best option. According to Hill (2007) the effects of FDI on balance of payment can be realised in three ways. First, if FDI provides products that would otherwise have been imported, the current account of the host country can be improved. Second, the initial capital inflow obtained through FDI may be recorded as deficit for the home country and credit for the host country, and presenting a healthier balance of payment to the host country. Third, export oriented FDI results in improved foreign exchange for host countries. As a result, Ghana has many initiatives through the Free Zones Board, which enable companies to produce at a cheaper cost for export (Ghana Free Zones Board, 2012). This initiative by Ghana is not in isolation, as it is believed that most African countries are enthusiastic about attracting export-oriented FDI (Musila and Sigue, 2006).

In sum FDI has a potential to contribute in the creation of employment, development of host country's human resources, transfer of technology to host nations, productive utilisation of factors of production and creation of value for consumers, and all these contribute to the economic growth of host countries

(Hatani, 2009; Omar, 2009; Neuhauser, 2006; Naude and Krugell, 2007; Bwalya, 2006; Fedderke and Romm, 2006).

The next section reviews the determinants of FDI, in Ghana as a process of clearly identifying the research gap.

3.7. The Research Gap - Process and Identification

The literature review so far has identified factors that have been found to be significant in attracting FDI in general. It also stated that research specifically on FDI in Ghana was limited. Chapter 2 also presented the context of the study and revealed that Ghana has enjoyed trade, political and historical relationship with the UK, which could be exploited further for the benefit of both countries. Since Ghana's investment promotion focuses more on English-speaking countries (Djokoto, 2012), the UK is an attractive option for Ghana to target if the right determining factors for the UK investor are met. For example, Henley, *et al.*, (2008) state that two thirds of Indian companies in Africa is located in East Africa because of the historical ties between the two areas. Significantly Ghana presents a useful market for UK products and services, as for example, it is the third biggest market for UK exports (Gov.UK, 2013). Considering how much importance Ghana attaches to FDI (Owusu-Antwi, 2013 and 2012; Djokoto, 2012; Barthel, *et al.*, 2011; Acquah, 2009; Abor and Harvey, 2008) one justifiably wonders why no research has been undertaken to-date to investigate the determining factors of UK involvement in Ghana through FDI, especially since the UK is the leading source of FDI for Ghana by value (GIPC, 2013d; Mmieh and Owusu-Frimpong, 2004). Over the last few decades, there has been research on FDI in Ghana but this remains limited (Owusu-Antwi, *et al.*, 2013). Below is chronological review and summary of research conducted on FDI in Ghana in general.

Table 3.2: List of Research on Foreign Direct Investment in Ghana

Characteristics	Methods	Summary of Findings
Boateng and Glaister (2003): Strategic Motives for International Joint Venture Formation in Ghana	Factor analysis of responses from a sample of 41 joint venture companies in Ghana who had foreign partners.	The motives for joint ventures are to overcome government-created barriers, share costs, share risks, facilitate international expansion
Boateng (2004): Determinants of Capital Structure: Evidence from International	The same data and methods above	Size of joint venture, type of industry and level of ownership of joint venture partner positively affect the capital structure of the joint venture in Ghana
Mmieh and Owusu-Frimpong (2004): State Policies and Challenges in Attracting Foreign Direct investment: a Review of the Ghana Experience	Qualitative/conceptual review of available evidence in relation to Ghana Government's economic policies from 1981 to 2002, the impact these economic policies had on attraction of FDI and factors that impede the attraction of FDI	<ul style="list-style-type: none"> • Structural Adjusted Programme increased FDI • Problems that impede FDI are bribery, corruption, difficulty in having access to land
Acquaah, (2005): The study was mainly on the effect of economic liberalisation policies on domestic companies, but partly focused on the overall spillover effect of FDI	Survey of 78 manufacturing companies in Ghana in 1999	FDI contributes in: <ul style="list-style-type: none"> • Provision of capital to support domestic companies • Technological knowledge • Management skills and expertise • Improved quality of products • Improved efficiency of domestic companies

<p>Tienhaara (2006): The study examined the relationship between FDI in the mineral sector and environmental regulation in Ghana</p>	<p>The study used case study approach and interviews in 2005</p>	<ul style="list-style-type: none"> • There was less emphasis on environmental protection • There was no proper balance between protection of investment and protection of the environment
<p>Abor and Harvey (2008): The study centred on the effect of FDI on creation of employment and the level of wages in Ghana</p>	<p>Simultaneous panel regression was used in analysing the data. The data was obtained from the World Bank's Regional Project on Enterprise Development data-set from 1992 to 2002.</p>	<ul style="list-style-type: none"> • FDI had positive and significant effect on employment levels in Ghana • FDI had insignificant effect on wages of employees in Ghana
<p>Kyereboah-Coleman and Agyire-Tetteh (2008): The study examined the effect of exchange rate volatility of FDI</p>	<p>The use of Time series data from 1970 to 2002. The analysing was conducted through modelling</p>	<p>The study revealed the following:</p> <ul style="list-style-type: none"> • Exchange rate volatility has negative and significant effect on FDI • FDI stock and political factors attract FDI • Market size is irrelevant to most investors in investing in Ghana

<p>Acquaah (2009): International Joint venture Partner Origin, Strategic Choice and Performance: a Comparative Analysis in an Emerging Economy in Africa</p>	<p>Survey method involving 76 companies in Ghana who had joint venture partners. Ordinary Least Squares and Logistic regression were used for the analysis of data</p>	<ul style="list-style-type: none"> • Companies in Ghana with partners from emerging countries performed better in cost leadership, compared with their counterparts who had partners from advanced countries. • Companies in Ghana who had partners from advanced countries outperformed their counterparts who had partners from emerging markets in using differentiation strategy.
<p>Adam and Tweneboah (2009): They studied the impact of foreign direct investment on stock market development in Ghana</p>	<p>Use of multivariate cointegration error correction modelling technique to analyse time series data</p>	<p>There is positive and significant relationship between FDI and stock market development</p>
<p>Harvey and Abor (2009): The study was on the determinants of inward FDI, particularly on the manufacturing sector in Ghana. It mainly examined the characteristics of existing manufacturing companies and the extent to which those characteristics could attract other companies</p>	<p>The data was obtained from the World Bank's Regional Project on Enterprise Development data-set from 1991 to 2002. It was analysed using the binary logic regression model</p>	<ul style="list-style-type: none"> • Company size, capital requirement, skill intensity, labour cost, technological capability and unionisation of the company's workers positively affect inward FDI. • Older companies in Ghana are less likely to attract FDI.
<p>Abor (2010): This study was on the effect of FDI on the</p>	<p>The data was obtained from the World Bank's Regional</p>	<ul style="list-style-type: none"> • Companies with high proportion of foreign capital (FDI) are more productive than their

productivity of companies in Ghana	Project on Enterprise Development data-set from 1991 to 2002. It was analysed	<ul style="list-style-type: none"> • counterparts with no or low foreign capital • There was no significantly positive spillover effect of FDI on the productivity levels of domestic companies, either because the spillover effect was not high enough to create significant effect on local companies, or that Ghana did not have the required absorptive capacity to take advantage of any possible spillover effect
Barthel, et al., (2011). They studied the determinants of FDI in Ghana	Interview of 54 multinational companies in Ghana from 17 countries	<ul style="list-style-type: none"> • Access to land is an impediment to FDI • Ghana received less efficiency-seeking FDI • Investors found difficulties in the labour market in relation to availability of skilled labour, labour productivity and labour regulations • Political stability was the most important determinant of FDI • Natural and physical resources were the second most important determinant • Incentives and protection of investors were found to be important but the higher the percentage of foreign ownership of the company, the less they would seek protection from the Ghana Government
Nyarko, et al., (2011): Studied the effect of exchange rate regimes on FDI in Ghana	The use of ordinary least squares and cointegration modelling. The data was obtained from the World Development Indicators for the period between 1970 and 2008	<ul style="list-style-type: none"> • Exchange rate regime had no effect on FDI in Ghana • Democracy was a significant determinant of FDI

Djokoto (2012): Studied the effect of investment promotion on FDI in Ghana	The data was obtained from UNSTADSTAT and was analysed with auto regressive distribution lag modelling.	<ul style="list-style-type: none"> • Trade openness positively influence FDI • Inflation was significant in FDI attraction • Exchange rate is insignificant in FDI attraction • GIPC was insignificant in FDI attraction
Acheampong (2013): The study centred on the effect of FDI, specifically foreign banks on the financial performance of domestic banks namely the Merchant Bank Ghana and Ghana Commercial Bank, from 1975 to 2008	The study was based on regression analysis of the annual financial reports of the Ghana Commercial Bank and the Merchant Bank Ghana	The study confirmed that the entry of foreign banks improved domestic bank's return on assets.
Owusu-Antwi (2013): The study focused on the determinants of FDI	The study used time series data from 1988 to 2011, and regression was used to analyse the data	<p>The following were found to be significant determinants of FDI in Ghana:</p> <ul style="list-style-type: none"> • Natural resources • Trade openness • Infrastructure • Exchange rate • Per capita GDP
Acheampong and Osei (2014): The study was on the determinants of FDI	The study used time series data from 1980 to 2010. The analysis was performed using Vector Error Correction Model	<ul style="list-style-type: none"> • Infrastructure was a significant determinant of FDI. • Political stability was a significant determinant of FDI. • In the long-run, natural resource would not be a significant determinant of FDI.

From the above majority of the studies conducted so far have considered FDI from Finance and Economics perspective, and generally used a single type of data (mainly quantitative research). The general themes for the studies are those which concentrate on the determinants and motives of FDI (Achempong and Osei, 2014; Owusu-Antwi, 2013; Djokoto, 2012; Nyarko, *et al.*, 2011; Barthel, *et al.*, 2011; Acquaah, 2009; Harvey and Abor, 2009; Kyereboah-Coleman and Agyire-Tettey, 2008; Mmieh and Owusu-Frimpong, 2004; Boateng and Glaiter, 2003).

The second strand of the research on FDI in Ghana centres on the impact of FDI on attraction of FDI, economic growth, productivity, stock market, technology and managerial skill and experience spillovers (Acheampong, 2013; Abor, 2010; Acquaah, 2009; Adam and Tweneboah, 2009; Abor and Harvey, 2008; Tienhaara, 2006; Acquaah, 2005; Boateng, 2004).

The current research focuses on the first stream, which are the determinants and motives of FDI. Having reviewed all the above research on FDI in Ghana and those published elsewhere, it is evidently clear that no research has so far focused specifically on UK FDI in Ghana. The choice of UK rather than any other country is significant in many ways, as detailed in Chapter 2. These include the fact that UK remains a leading source of FDI to Ghana in terms of value and it used to be the leading source of FDI in terms of volume (Mmieh and Owusu-Frimpong, 2004). The country also has bilateral and historical relationship with Ghana, and historical ties are known to affect FDI inflow (Makino and Tsang, 2011; Ghemawat, 2001). Increasing the volume as well as the value of FDI will therefore contribute to the Ghanaian economy. It must also be emphasised that the research approach and some of the variables under consideration differ from research to research, and this current research is no different in that respect. Overall, the determinants and motives the above literature review found to be significant such as exchange rate, political factors, market size, infrastructure and regulatory framework have been captured in this study, but are being studied only from the UK investors' perspective, using the explanatory mixed research method. This current research adds to their findings with current data. It also gives practical examples of UK investors experience in Ghana.

There is also room for investigation of FDI between two countries (in this case, Ghana and the UK). Elmawazini and Nwankwo (2012) for example, in reference to the limitations of their methodological approach stated that the very definition of FDI defers from country to country. It is therefore justifiable to state that unless one is able to hold the differences in the definition constant, FDI research on country by country basis may provide more accurate reflection of the views of the population under investigation. Acquah (2005) for example, states that research on one country improves both internal and external validity. Therefore FDI in Ghana is a fertile ground for bilateral FDI research to be conducted. Though research on determinants of FDI is not new, in Ghana it still remains a legitimate topic for investigation due to the potential benefits to the country, and also the fact that the topic is still under-researched (Owusu-Antwi, *et al.*, 2013). It is therefore not surprising that the most of the studies reviewed on FDI in Ghana are relatively recent (between 2003 and 2011).

3.8. Summary

This chapter presented a review of previous research on FDI in order to contextualise the study. The definition of FDI was utilised to confirm which types of businesses would be involved in the study. Various theoretical models were presented to select the appropriate model for this study, which was the OLI paradigm. Finally some determinants of FDI were discussed and the key advantages of FDI to both home and host economies were presented.

The next chapter presents the conceptual framework, detailing and explaining the determinants which were selected for this study. It also justifies the choice of the OLI paradigm and presents the hypotheses developed with the determinants.

CHAPTER 4: CONCEPTUAL FRAMEWORK AND HYPOTHESES

4.1. Introduction

The previous chapter reviewed the FDI literature, and presented an initial thought of the theoretical framework to guide this study. It also listed the variables that have been identified as empirically significant in choosing a high involvement investment strategy such as FDI, and explained why they have or have not been included in this study. This chapter presents the conceptual framework in more detail. It highlights the choice of the theoretical framework adopted for the research. It also presents a discussion of the variables being studied and their anticipated inter-relationships in relation to UK FDI in Ghana.

4.2. Conceptual Framework

This chapter develops the conceptual framework which underpins this research. Despite the perceived benefits of FDI to recipient economies (Waldkirch and Oforu, 2010; Dunning, 2009a; Hatani, 2009; Adams, 2009; Hearn and Piesse, 2009; Buckley, *et al*, 2008; Kholdy and Sohrabian, 2008), it is believed that the global share of Africa's FDI, including that of Ghana, has been declining (Bartels, *et al.*, 2009; Bezuidenhout, 2009; Sekkat and Veganzones-Varoudakis, 2007). This is in spite of the fact that globally, FDI has increased dramatically over the last two decades (Kinda, 2010; Adams, 2009; Vu and Noy, 2009; Veganzones-Varoudakis, 2007).

Based on the above, a conceptual framework, which is grounded on the OLI paradigm or eclectic paradigm, has been developed. The premise of the framework is that the determinants of inward FDI in Ghana are about the interaction between the motives of FDI (efficiency-seeking, market-seeking, strategic asset-seeking and resource-seeking) on one hand and OLI (Ownership advantages, Locational advantages, and internalisation advantages) on the other. Therefore the

explanation of the attraction and retention of UK FDI is derived from the motives of FDI as well as the presence of certain OLI variables (Eden and Dai, 2010; Lopes, 2010; Narula, 2010). The internalisation leg of the OLI triad, consistent with the internalisation theory (see Buckley and Casson, 1976) essentially highlights that due to market imperfections, in some cases companies stand to create better value for stakeholder by establishing subsidiaries in some countries rather than outsourcing aspects of the value chain (Dunning, 2001). The locational advantages (L factors) are conditions in a country, in this case, Ghana, that would either entice the UK investor to invest in Ghana, or serve as a disincentive to locate FDI in the country (Lopes, 2010). Ownership advantages refer to assets and capabilities of companies needed for sustainable profitability and growth (Narula, 2010). Below are the lists of the OLI variables identified from the literature (see Eden and Dai, 2010; Lopes, 2010; Rugman, 2010; Brouthers, *et al.*, 2009; Dunning, 2001; Dunning and Kundu, 1995; Agarwal and Ramaswami, 1992):

Ownership variables: firm size, country of origin, knowledge, brands, organisational structure, management skills, natural factor endowments, manpower, capital, industry market structure, unique products or services

Locational variables: market size, natural resources, infrastructure, education system, governance structures and other aspects of political and government activity.

Internalisation variable: transactional costs, market imperfections, the need to ensure quality control, the need to coordinate capabilities of parent company.

However, following Narula's (2010) recommendation for simplification of the OLI paradigm and for practical purposes, not all these variables will be included in this research. All the variables considered as contributing to create ownership advantages have been combined into one variable called ownership advantage, since essentially all the factors come together to determine how companies will fare, when compared to their competitors (Eden and Dai, 2010; Dunning, 1998).

This framework also explains that the relevance of each of the OLI variables essentially depends on the motives of FDI (Lim, 2008; Asiedu, 2002).

The eclectic paradigm is not without criticisms. It has sometimes been described as not being a theory but a mere shopping list of variables (Bitzenis, *et al.*, 2009; Dunning, 2001). Some researchers also believe that due to the major evolution that the eclectic paradigm has undergone over the years, its attractiveness is either questionable or has been diminished at best (Eden and Dai, 2010). They list five different major modifications that have been made to the Ownership advantages alone, not to mention the locational and internalisation legs of the OLI triad. As a result, Narula (2010) for example, proposed what he called EP-Lite (EP stands for eclectic paradigm), which is a drastic simplification of the paradigm to resemble the earlier versions of it. Verbeke and Yuan (2010) stated that whichever version of the ownership advantage framework one adopts needs to be modified, because it is unable to explain the resource combination challenges facing multinational companies.

Another stream of criticism comes from the proponents of the internalisation theory who believe that the internalisation theory is enough to explain FDI. This implies that ownership and locational advantages do not necessarily need to be present for FDI to take place (see Buckley, 1981 and 1983; Rugman, 1981). A more recent criticism comes from Moghaddam *et al.*, (2014). They assert that the OLI paradigm is not robust enough for the post-Cold War business environment, especially in explaining the activities of multinational companies from emerging markets. They suggested an extension of the FDI motives, for example, to six instead of four namely End Customer Market Seeking, Natural Resource Seeking, Downstream and Upstream Knowledge Seeking, Efficiency Seeking, Global Value Consolidation Seeking and Geopolitical Influence Seeking. However their proposed typology has not been selected for this study because of a couple of reasons. First, it was relatively new and had not been tested at the time of the research. Second, this current research is about companies from a developed country (the UK) and not from an emerging market, which appears to be the centre of their argument for a

new framework. Therefore their assertion of the OLI paradigm not able to explain investment from emerging markets does not apply in this research.

Despite the above criticisms, the choice of the OLI paradigm is justifiable because over the years, it has been accepted as the most dominant, robust, influential, inspirational and comprehensive framework for empirical analysis of the determinants of FDI (Rugman, *et al.*, 2011; Deichmann, 2010; Lundan, 2010; Buckley and Hashai, 2009; Cantwell, *et al.*, 2009; Cheng, 2008; Roberts, *et al.*, 2008; Stoian and Filippaios, 2008; Pinho, 2007; Dunning, 2001 and 2000). As Dunning (2001) sums up, the eclectic paradigm is indeed a theory, and all the variables identified are grounded in economic or organisational theory. He continues that the variables are generic and offer acceptable explanation for foreign value-added activity, which includes FDI. Besides, the use of OLI is valid, irrespective of the motive of FDI. Figure 4.1 is the proposed framework to illustrate how all variables under consideration relate to one another. Figures 4.2 to 4.8 offer a further breakdown of the various components of the framework in order to clarify and highlight the hypothesised relationships among the variables.

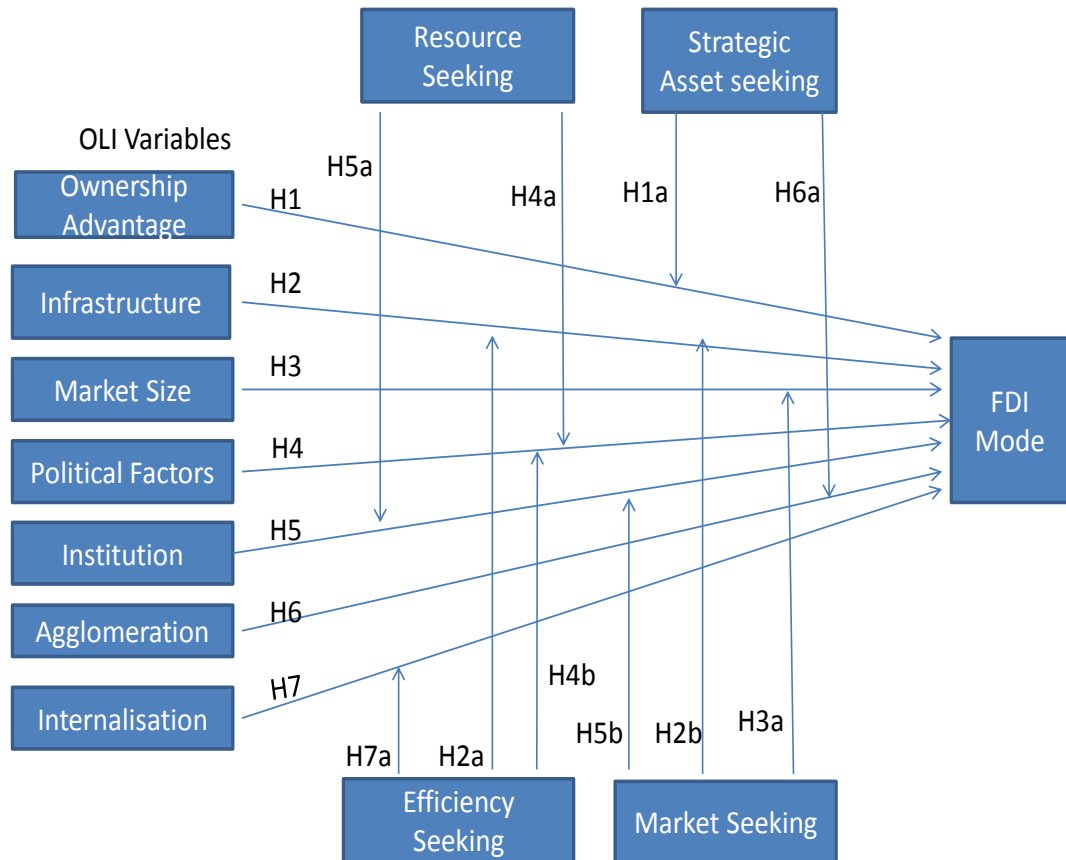


Figure 4.1: UK FDI in Ghana according to OLI paradigm, moderated by FDI motives

The model above highlights the moderating effects of the motives of FDI in predicting the determinants of FDI (Dunning, 2001 and 1995). This is because the locational requirements or determinants vary, depending upon the motive of FDI. The use of arrows and boxes in representing direct relationship between independent variables (OLI variables in this research) and dependent variable (FDI mode) on one hand, and the moderated effect of the correlation between FDI motives, and the independent and dependent variables on the other, is supported in the literature (Lee and Rugman, 2012; Huang, *et al.*, 2011; Jiang, *et al.*, 2011; Thomas, *et al.*, 2011; Fang and Zou, 2009; Reiche, *et al.*, 2009; Ekeledo and Sivakumar, 2004). For example, Thomas, *et al.*, (2011: 1074) highlight how a typical conceptual diagram of this nature may look like. Below is further elaboration of each of the four motives of FDI:

4.2.1. Resource-Seeking Motive

Resource-seeking motive is strongly linked with the quest for natural resources or raw materials for the purposes of backward integration. It is believed that FDI to Africa is generally resource-seeking or market-seeking (Khadaroo and Seetanah, 2009). This, for example, explains Chinese investment decisions in countries such as Zambia, Peru and Kazakhstan for copper, iron ore and oil respectively (Buckley, *et al.*, 2008). It is believed that political factors, poor institutions and lack of rule of law do not necessarily have significant influence on a company's decision to invest in a resource-rich country. This is because alternative locations might not be available to the investor or are generally limited (Cantwell, *et al.*, 2010). Historically resource-seeking has been the most important motive of FDI (Bitzenis, *et al.*, 2007). This current research, in addition to establishing how resource-seeking relates with other FDI determinants also confirms if resource-seeking is the most important motive for the UK companies. Below is another type of resource companies seek when they invest abroad – strategic asset.

4.2.2. Strategic Asset-Seeking

It is believed that due to technological advancement, increasing competition among companies, transferability of some ownership advantages to new markets, and liberalisation policies of governments, it is sometimes essential that companies undertake investments primarily to augment or protect their existing assets (Dunning, 2001). A typical example given is investment to source technological asset. Investment decisions influenced by the need to acquire strategic assets are associated with agglomeration variable (figure 4.7). It is a widely held view that in most cases, foreign companies are disadvantaged in emerging markets as a result of lack of knowledge of the local market. Therefore foreign companies sometimes locate their investment near other FDI companies to acquire knowledge, expertise and share liabilities (Procher, 2011; Tan and Meyer, 2011; Bronzini, 2007). Recently, it has been suggested in the literature that a new framework is required

specifically to deal with the strategic asset-seeking/asset-augmenting motives of FDI, as extension of the OLI paradigm to take into account the motives of multinational companies from emerging markets. Kedia *et al.*, (2012) identify two such frameworks. The first is the LLL Framework (Linkage, Leverage and Learning) by Matthews (2006). It posits that since multinational companies from emerging markets are generally latecomers, they are disadvantaged. They therefore have to complement the strategic initiatives of established companies to be able to establish themselves in the market. These latecomers such as Acer and LG offered established companies services which were more profitable for the established companies to outsource. Through this process, the latecomers themselves learned how to operate as multinational companies. The second framework as identified by Kedia *et al.*, (ibid) is the Springboard Perspective. Their framework also postulates that emerging market multinationals systematically expand internationally in order to acquire critical assets needed to compete against rivals at home and to circumvent institutional and market constraints.

However, as this research does not discriminate between relatively new and old companies and it also focuses on companies from the UK rather than from emerging markets, neither framework is being adopted. The OLI is suitable for the analysis of strategic asset-seeking motive as far as this research is concerned. The next session presents the third motive, which is efficiency-seeking.

4.2.3. Efficiency-Seeking Motive

The efficiency-seeking motive is theoretically associated with the internalisation variable, which is cost reduction (Reidl, 2010). Therefore where the investor seeks to achieve efficiency, the transaction cost involved in investing in Ghana will be a paramount factor to be considered. However, the cost of investment in a country is also influenced by other locational and ownership variables. For example, the level of physical and financial infrastructure can influence cost of investment (Khadaroo and Seetanah, 2010). It may therefore be said that the efficiency-seeking motive is

closely related to other motives of FDI. According to Bitzenis *et al.*, (2007), efficiency-seeking motive may involve the structuring of market-seeking or resource-seeking motive to ensure that investors benefits from investment in geographically different countries. They continue that the objective of efficiency MNCs is to locate in countries where they can take advantage of factor endowments, institutional arrangements, cultures, economic systems and policies and market structures to enable them to reduce cost and become more efficient. The next section presents the fourth motive for FDI.

4.2.4. Market-Seeking Motive

It is stated that where the FDI motive is market-seeking, the main drivers of FDI will be large market size, per capita income and significant opportunities for growth (Campos and Kinoshita, 2010; Brouthers, *et al.*, 2008).

There is an assumption that the investment decisions may be affected by more than one motive. In this regard, Barthel, *et al.*, (2011) state that traditionally FDI to developing countries such as Ghana could be attributable to resource-seeking and efficiency-seeking motives. This presents a case of interrelatedness among the FDI motives (also see Bitzenis, *et al.*, 2007). A typical example of a UK company affected by multiple motives is Blue Skies Holding Limited (Appendix L) as revealed in an interview in 2010 conducted as part of this study [more information on the interview is contained in the methodology chapter]. The interview confirmed that though their decision to invest in Ghana and Egypt were initially primarily influenced by the need for fruits to be supplied to the European markets, their investment in South Africa was influenced by the quest for fruits for the European markets, as well as the possibility of selling some of the products to the local market. It can therefore be said that their motives were both resource-seeking as well as market-seeking. This example demonstrates that companies may have multiple motives in investing in a particular country.

The interrelatedness of the four FDI motives does not mean they are the same or could be treated as one variable. Therefore, following the examples from the extant literature, these motives (resource-seeking, strategic asset-seeking, efficiency-seeking and market-seeking) have been treated as individual variables to ascertain how they relate with the OLI variables (Campos and Kinoshita, 2010; Riedl, 2010; Acquah, 2009; Brouthers, *et al.*, 2008; Buckley, *et al.*, 2008; Roberts, *et al.*, 2008).

4.3. OLI Variables

Figure 4.1 shows that the relevance of each of the OLI variables depends on the motive of FDI (Campos and Kinoshita, 2010). With the government Ghana making changes to attract FDI (Harvey and Abor, 2008), the key question is the extent to which locational variables relate to the motive of FDI, and whether these variables are presented in a way to reveal the potential for ownership advantage and internalisation potential to be realised (Osei and Gbadamosi, 2011).

The OLI variables have been presented in this proposed model together to depict the fact that all three categories of variables (O, L and I variables) operate together for any investment decision-making regarding FDI in Ghana (Eden and Dai, 2010; Dunning, 2009a). In fact Rugman's work on reconciling the eclectic paradigm and Rugman's Internalisation Theory reveals a disadvantage of the eclectic paradigm if variables are presented as independent of one another (Rugman, 2010). He states in the above research that the OLI is too eclectic and over-determined. This is because it is difficult to place some of the variables in one specific category. He gives an example of natural resources such as forests, oil well or mine which are generally considered as locational advantages. However if the government in a country allows a company access to these resources, they become ownership factors instead. That is, the difference between ownership and locational factors is blurred in this case. He also continues that ownership factors are not very useful until they become internalised. The OLI factors are therefore interrelated and best presented together.

In the section below, the proposed model (Figure 4.1) has been presented in its compartmentalised form to clearly show the relationship between each OLI variable and its moderator on one hand, and the hypothesised effect on FDI mode on the other.

Based on the literature review, the aims and objectives, the research questions and the above conceptual framework, the sections below present the hypotheses, starting with hypothesis in relation to ownership advantages:

4.3.1. Ownership Advantage

Consistent with multinational enterprise (MNE) theory, MNEs possess some advantages that enable them to compete with, and in some cases outperform local and other multinational companies operating in a particular geographical area (Barthel, *et al.*, 2011; Buckley, *et al.*, 2007; Markusen, 2002; Dunning and Bansal, 1997). These include superior marketing techniques, financial resources, supply chains, technology, patent, trade mark, management expertise, company size (Cantwell, *et al.*, 2010; Dunning, 2009a, 2001, 1998, 1995; Mmieh and Owusu-Frimpong, 2004; Dunning and Bansal, 1997). The importance of the above list of advantages to UK companies is the extent to which they are transferrable to the Ghanaian market. The transferability of the ownership advantages then determines the extent to which they create advantages over competitors such as local companies and especially the increasing competition from Asia for both UK and Ghanaian companies (Wallis, 2010; Taylor and Xiao, 2009; Henley, *et al.*, 2008; Naidu and Mbazima, 2008). This is because not all ownership advantages are mobile or transferrable (Erramilli *et al.*, 1997; Dunning 1979). Therefore to accommodate these variables and to make them operational, these are sometimes referred to as competitive advantage in this research. This is in accordance with Dunning (1998) who refer to them as monopolistic or competitive advantage. This view is also enforced by the Resource-Based View (RBV) which is also referred to as the resource-based theory. It essentially emphasises that a company's valuable,

rare and inimitable resources constitute the company's competitive advantage (Peng and York, 2001; Barney, 1991).

It has been acknowledged that the competitiveness of companies is moderated by factors external to the boundaries of the company (Dunning, 1995). Therefore this research uncovers the extent to which the ownership advantage of UK companies correlates to UK FDI choice in Ghana. It has been hypothesised that the greater the competitive advantages of investing companies compared to other companies in the host country (Ghana, in this research), the more likely they will involve in, or increase foreign production (Dunning, 2000). He continues that competitive advantages obtained from the possession of unique and sustainable resources and capabilities create entry barriers against potential competitors. Cheng (2008) also hypothesised that the more benefits companies obtain from their ownership advantages, the more likely they would choose wholly owned subsidiary over other modes of entry. In the light of the above the following has therefore been hypothesised:

H1: Ownership advantage of UK companies correlates positively with inward FDI to Ghana in a form of wholly owned subsidiary.

This means the more ownership advantages UK FDI in Ghana have, the less likely they would seek cooperative entry strategies. It must be noted that ownership advantage is sometimes referred to as competitive advantage or firm-specific advantage, and these three terms are used interchangeably in the literature (Bartels, *et al.*, 2013; Cleeve, 2009; Dunning, 2001).

In a situation where investment opportunities exist but companies do not have the required competitive or ownership advantage, affected companies may look for what has been referred to as asset augmenting activity (Galan, 2007; Makino, *et al.*, 2002; Narula and Dunning, 2000). It can therefore be assumed that a company's decision to undertake a particular investment may be explained by the need to augment existing advantages or acquire new advantages (Dunning, 2001).

The following has therefore been hypothesised, with the view that an increase in the flow of quality FDI which UK companies could acquire expertise from is likely to increase the FDI trend in Ghana.

H1a: Opportunities for UK companies to acquire strategic assets in Ghana correlates positively with FDI.

Though a decreasing competitive advantage of companies is hypothesised to create a decreasing FDI, the effect could be minimised through existence of viable potential partners. This is very consistent with research on the potential effect of agglomeration on inward FDI (Procher, 2011; Tan and Meyer, 2011; Konrad and Kovenock, 2009; Bronzini, 2007; Dunning, 2001 and 2000). The existence of suitable partners in a country may also add to what is called country specific advantages (Cho, *et al.*, 2009). Therefore for the UK company to cooperate with such companies in Ghana, it might mean that they would have to also physically locate a subsidiary in the country. Figure 4.2 below shows the anticipated relationships among competitive advantage, strategic asset-seeking motive and UK FDI in Ghana:

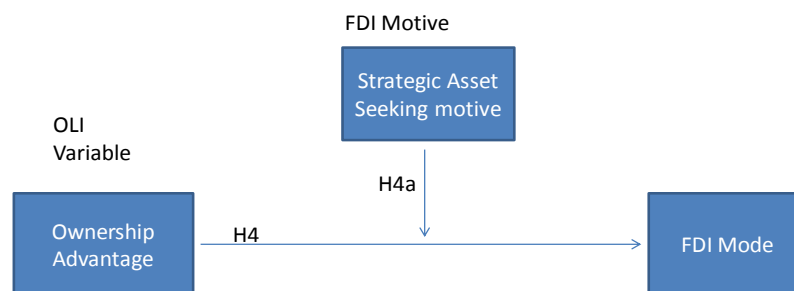


Figure 4.2: Ownership advantage moderated by strategic asset seeking motive

4.3.2. Physical and Financial Infrastructure

The effect of infrastructure as a determinant as presented in the extant literature is rather mixed. For example, Hailu (2010), in reference to an earlier work by Nnadozie and Ozili (2004) suggest that there is no robust evidence to support infrastructure as a determinant of USA FDI to Africa. This stance has also been echoed elsewhere; as it has been stated that infrastructure has no effect on FDI in Sub-Saharan Africa (Asiedu, 2002). It is essential that this current research examines this variable further. This is because in contrast to the above stance it is believed that good infrastructure attracts FDI to sub-Saharan Africa (Khadaroo and Seetanah, 2010; Sekkat and Veganzones-Varoudakis, 2007; Musila and Sique, 2006; Wheeler and Mody, 1992). This is particularly important for the distribution of goods and services. Luiz and Charalambous (2009) for example state that FDI in the Sub-Saharan region which includes Ghana relies on infrastructure, especially information-technology related, which is essential for the services industry.

By extension inadequate infrastructure discourages inward FDI. This might also explain why FDI in Ghana is mostly concentrated in the Greater Accra Region, where the capital city is located (Harvey and Abor, 2009; Mmieh and Owusu-Frimpong, 2004). However, the effects of infrastructure on UK FDI in Ghana may be moderated by the industry a company operates in and the motive of FDI. For example, companies in the extracting sectors such as mining and excavation are less likely to be affected by infrastructure, compared to companies in the service industry such as general retail and banking (Luiz and Charalambous, 2009). Besides, it has been stated that infrastructure, market size and governance (political factor) are the fundamentals for investment climate (Tuomi, 2011).

Furthermore, is believed that a well-developed financial system in a country attracts foreign direct investment (Adam and Tweneboah, 2009a; Cavusgil, *et al.*, 2008; Kohli, 2008; Kyereboah-Coleman and Agyire-Tettey, 2008;). According to IMF (2010) Ghana's financial infrastructure and systems are not well-developed, compared to the high income or even the middle income countries. This is because

for example there are less than forty companies listed on the Ghana Stock Exchange, and the financial sector is generally described as vulnerable (Adam and Tweneboah, 2009a; IMF Country Report 2010; 2008; 2007a; 2007b). It would therefore be relatively difficult for foreign investors to raise capital from the Ghana Stock Exchange, for example, to augment their current resources when necessary. There has also been empirical research establishing a strong correlation between the development of financial systems in a country with the level of poverty reduction (Beck, *et al.*, 2007), and according to Hinson (2011) most people in Ghana do not have access to banks.

It is generally believed that level of infrastructural development, whether physical, technological or financial, has significant effects on cost of investment (Khadaroo and Seetanah, 2009, for example). They believe that poor infrastructure increase the cost of companies and reduces opportunity for profit maximisation. Good infrastructure therefore subsidises total cost of investment. Luiz (2010) emphasises this point by stating that investors in Africa complain about high cost partly due to lack of supporting infrastructure. Therefore for companies whose objective is to maximise profit by reducing costs, poor infrastructure is predicted to be a disincentive. Regarding the effect of infrastructure on market-seeking FDI, it is believed that developed infrastructure has positive effect on customer satisfaction. This is because better communication with customers through better information technology offers companies better understanding of the needs of suppliers and customers (Amoako, 2012; Owusu-Frimpong, *et al.*, 2011). However, Luiz (2010) continues his argument that Sub-Saharan countries which include Ghana have performed very poorly as far as information technology as infrastructure is concerned. Due to the above, the following have been hypothesised and displayed in figure 4.3:

H2: The relatively less developed physical and financial infrastructure in Ghana discourages, UK FDI regardless of FDI type.

H2a: Infrastructure is likely to be a deterrent to efficiency-seeking companies

H2b: Infrastructure is likely to be a deterrent to market-seeking companies

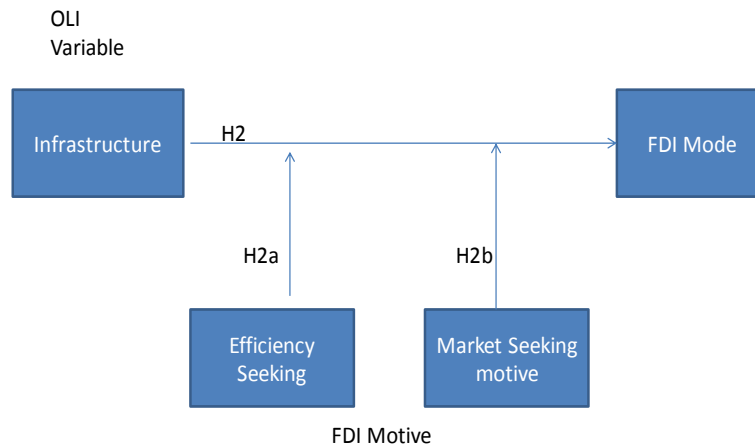


Figure 4.3: Infrastructure moderated by efficiency seeking and market seeking motives

4.3.3. Market Size

This variable is described in terms of the number of people living in a geographical area, the per capita income and gross domestic product, which is normally used to determine the standard of living and the purchasing power of the populace. Acquah and Appiah-Nkrumah (2011) estimated that Ghana's population is 24.3 million, with a GDP of \$15.51 and a real GDP growth rate of 3.5 per cent. Its per capita GDP is also \$1500. This makes it one of the fastest growing economies in Africa (Blankson, *et al.*, 2004). In addition, Waldkirch and Ofori (2010) make reference to The World Bank prediction that Ghana could be one of the first Sub-Saharan countries to achieve middle income status in the next few decades. Potentially, this represents a viable destination for market-seeking FDI. Generally, the portrayal of Africa in the literature over the years with regards to purchasing power has been less than impressive (Bigsten and Shimeles, 2007; Asiedu, 2004b; Nwankwo, 2000). For example, it is believed that some inhabitants of Ghana live below the international poverty line (Hinson, 2011; Koku, 2009; Adjasi and Osei,

2007). Ghana is seen as one of the seven low-income emerging economies in Africa (Acquaah, 2009). However recent research shows that there are great opportunities for return on investment, even when the FDI motive is market-seeking (Luiz and Charalambous, 2009), and this might explain the recent investment in the sub-region such as Vodafone and PZ Cussons' FDI in Ghana and Nigeria.

Market size has been identified as one of the most important variables, especially if the FDI motive is market-seeking (Tuomi, 2011; Luiz and Charalambous, 2009; Chidlow and Young, 2008; Sique, 2006). This has also been alluded to elsewhere (Dunning 2009a; 2009b; 2001; 1973). Childlow and Young (2008) make reference to earlier research by Vernon (1974; 1979), Dunning (1993), Agarwal (1980) which affirm large market size has a positive relationship with inflow of FDI, and according to Dai (2009) market size is the most important economic determinant of FDI. As such the following are hypothesised and displayed in figure 4.4:

H3. Market size has a positive and significant relationship with FDI, regardless of FDI mode.

H3a. Market size is significant if FDI motive is market-seeking.

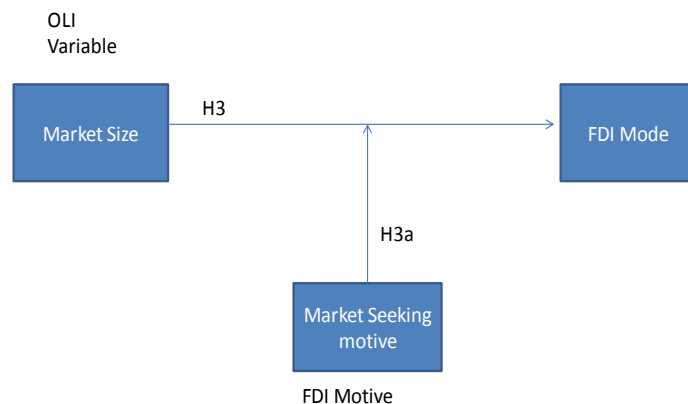


Figure 4.4: Market size moderated by market seeking motive

4.3.4. Political Factors

The political situation in Ghana can be evaluated by using the six the World Bank Institute Governance Indicators (Table 4.1 below). These six indicators are Voice and Accountability, Political Stability and Absence of Violence, Governance Effectiveness, Regulatory Quality, Rule of Law, and Control of Corruption. The definitions of all six indicators were also taken from the same source as the table below.

Table 4.1: Governance Indicators

Governance Indicator	Sub-Saharan Africa			Ghana			UK	
	Year	Percentile Rank	Governance Score	Percentile Rank	Governance Score	Percentile Rank	Governance Score	
		(0-100)	(-2.5 to +2.5)		(0-100)			(-2.5 to +2.5)
Voice and Accountability	2009	31.2	-0.62	60.7	0.5	91.9	1.31	
	2002	30.6	-0.65	47.6	-0.02	89.4	1.28	
Political Stability	2009	33.5	-0.57	50	0.16	54.7	0.3	
	2002	32.5	-0.62	42.3	-0.15	73.1	0.77	
Government Effectiveness	2009	27.3	-0.78	56.7	0.06	91	1.48	
	2002	28.4	-0.71	51	-0.18	94.2	1.89	
Regulatory Quality	2009	28.9	-0.71	54.8	0.12	94.3	1.54	
	2002	29.7	-0.68	38	-0.43	96.6	1.69	
Rule of Law	2009	28.1	-0.76	51.9	-0.11	93.9	1.71	
	2002	29.6	-0.71	52.4	-0.03	93.8	1.63	
Control of Corruption	2009	31.1	-0.63	59.5	0.06	91.4	1.54	
	2002	32.7	-0.59	49.5	-0.26	95.6	2.07	

Source: World Governance Indicators 14/July, 2011

Voice and accountability refer to the extent to which the populace of a country are allowed free media, freedom of expression, freedom of association and the chance to participate in the selection of government. The political Stability variable measures people's perception about how likely it is that an existing government will be removed by unconstitutional or violent means. Governance Effectiveness concerns the general perceptions regarding the quality and effectiveness of public and civil services to be independent from political pressures in order to formulate

and implement policies that will be beneficial to the country. Regulatory Quality measures the perceived ability of the government to formulate and implement policies that allow and promote private sector development. For example, the Ghana government has made policy changes, mainly as part of the Structural Adjustment Programme to privatise some state-owned enterprises and also encourage private sector participation (Acquaah, 2009; Harvey and Abor, 2009; Abor and Harvey, 2008; Boateng, 2004; Mmieh and Owusu-Frimpong, 2004). Regulatory quality also measures the political will of the government to support such services. The Rule of Law variable measures the perceived confidence of stakeholders in, and adherence to the rules of the country, particularly as regards contract enforcement, rule of law, property rights, the police, the courts and the likelihood of crime and violence. The sixth variable relates to the control of corruption. It captures the likelihood of individuals across the entire spectrum of society to amass private gains by corrupt practices. Easterly (2002) alluded to the favourable improvement in the above political indicators in Ghana, particularly in relation the rule of law, control of corruption and relaxation of trade restrictions.

As the Table 4.1 above exported from the World Bank website demonstrates, between 2002 when the UK was the leading source of FDI to Ghana to 2009, Ghana has been scoring better on all six political indicators. Besides, its performance was far above the average indicators for the sub-Saharan Africa. For example, while the average sub-Saharan country decreased from 29.7 percentile rank in 2002 to 28.9 on the regulatory framework variable, Ghana improved very significantly from 38 to 54.8. How countries score on the six variables has influence on the perceived political risk in the country.

For the purposes of this current research, political factors concern foreign investors' perception of the probability of frequent change in government, political tolerance, level of corruption and general governance. It also involves probability that foreign companies would be allowed to repatriate profits and generally operate without major interferences (Luiz and Charalambous, 2009; Demirbag, *et al.*, 2008).

There are conflicting views regarding the effect of political risk on FDI. Africa in general has been branded as inherently risky due to political and social instability, and that no single African country can be dissociated from this branding (Lepp, Gibson and Lane, 2011; Luiz and Charalambus, 2009; Lepp and Gibson, 2008; Anholt, 2007; Asiedu, 2002). Bitzenis, *et al.*, (2009), for example, are of the view that the criterion for multinational companies to invest directly is risk minimisation. It can there be assumed that some companies would avoid investing in locations that are perceived as contributing to risk maximisation. Harvey and Abor (2009) add that the perceived or real political instability is a significant deterrent to FDI.

As political factors (political risk, for example) are perceived as essential variable to be considered by investors before making investment decisions (Jimenez, 2010; Luiz and Charalambous, 2009; Asiedu, *et al.*, 2009; Demirbag, *et al.*, 2008; Kehl, 2007; Hubert *et al.*, 2004), the following has been hypothesised and displayed in figure 4.5:

H4: There is positive association between political factors and UK FDI in Ghana, regardless of FDI mode.

This is because from the literature, the political conditions in Ghana over the years have been favourable, as for example it has been commended by the west for its governance (IMF, 2013; Owusu-Antwi 2013; Asare, *et al.*, 2012). As the governance of Ghana permits all types of entry modes and any political risk affect all companies, it is not anticipated that responses of companies will vary depending upon choice of entry module (Osabutey and Debrah, 2012), hence the above hypothesis.

Additionally, though political condition has been perceived as a prerequisite for FDI (Barthel, *et al.*, 2011), it has been stated that due to scarcity of some natural resources, political factors are insignificant when the motive for the investment is resource-seeking (Cantwell, *et al.*, 2010). As a result the following has been hypothesised and displayed in figure 4.5 to confirm if the above view holds even

when the extractive companies have been excluded from the study:

H4a: The increasingly favourable political factors will have no effect on inward FDI from the UK if the motive is resource-seeking.

Furthermore, it is known that the Government of Ghana has been using tax incentives as part of its strategy to attract FDI (GIPC, 2013). However, there are conflicting views on how effective it is in enticing companies who may be seeking efficiency and reduction of overall cost of doing business (Barthel, *et al.*, 2011; Tuomi 2011). It is therefore imperative that the effect of tax incentives on FDI is disambiguated, hence the following hypothesis:

H4b: Government tax incentives correlate positively with efficiency-seeking FDI

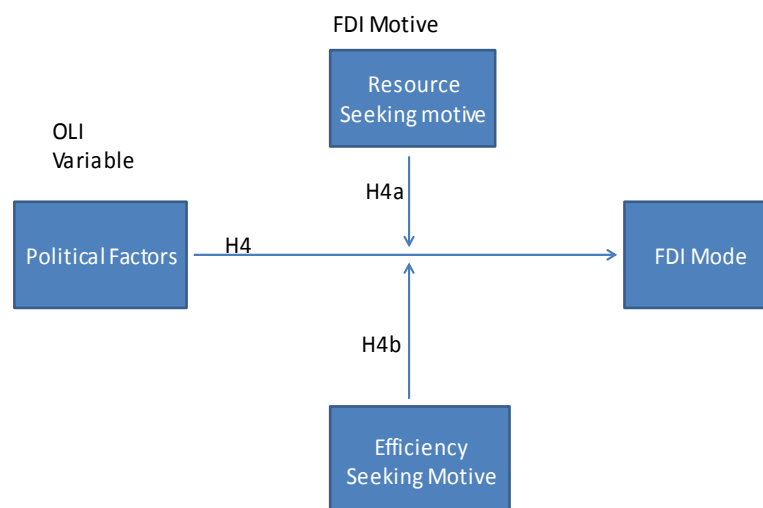


Figure 4.5: Political factors moderated by resource seeking and efficiency seeking motives

Figure 4.5 above demonstrates the three hypotheses above. It should be noted the political factors in relation to the efficiency-seeking motive (H4b) only refers to Ghana Government tax incentives.

4.3.5. Institutions

Institutions are simply defined as the formal and informal rules that govern economic exchanges and interactions, (Holmes Jr., *et al.*, 2013; Seyoum, 2011; North, 1990). These are considered to be relevant for FDI (Makino and Tsang, 2011), as multinational companies seek to invest in countries with the best institutional facilities to help companies achieve the best value for their core competencies (Dunning, 2009a, 2008, 2000). Different countries have different ways of attracting investment formally. One of these ways is the institutionalisation of Investment Promotion Agencies or IPAs (Lim, 2008). He empirically established correlation between effective IPAs and FDI. Most West African countries have established IPAs (Musila and Sigure, 2006) which are also listed and promoted on the World Association of Investment Promotion Agencies website. These countries include Niger, Nigeria, Ghana, Cote d'Ivoire, Mali, Cameroon and Cape Verde (WAIPA, 2014).

Against this background, Ghana has entrusted responsibility of presenting Ghana as an attractive investment destination into the hands of GIPC (Abor, *et al.*, 2008). It is unclear whether institutionalising GIPC and empowering them through the GIPC Act (formal institution) makes any impact as far as the UK investor is concerned. Using Lim's criteria (2008) for the measurement of effectiveness of an IPA in terms of age, IPA overseas staff intensity and the overall number of IPA staff, it can be postulated that Ghana's IPA is not as effective as it could be, as far as UK investors are concerned. For example, using the IPA overseas intensity criterion, it is not clear from the GIPC website or any publication whether they have any established office outside Ghana. However, formal institutional arrangements such as the GIPC have the potential to reduce agency and transaction costs incurred in investing in emerging economies (Child and Tse, 2001). For example, GIPC advocates for double taxation treaties with a number of countries and has bilateral relations with the UK (GIPC, 2013b). These formal arrangements provide investors guarantee and protection for investors in Ghana, according to GIPC. This is in agreement with Bankole and Adewuyi (2013). They found, through

econometric analysis, that bilateral trade treaties significantly improved FDI between West African countries (including Ghana) and EU countries, including the UK. Their research confirmed that in West Africa the UK has bilateral relationships with Ghana.

Apart from formal institutions such as the bilateral treaties and GIPC, there are also informal ties which are developed through what Makino and Tsang (2011) refer to as the unwritten rule, and they believe historical ties such as colony-colonizer relationship can play a role here. They believe the role can be negative or positive, depending upon how the historical relationship is perceived. In this current research informal ties and informal institutions are used interchangeably (see Holmes Jr., *et al.*, 2013; Seyoum, 2011; Bevan, *et al.*, 2004). This research will therefore investigate the UK investor's perspective on how both formal and informal ties contribute towards the flow of FDI to Ghana. This is imperative because Ghana used to be a British colony (Nimako, 2010; Easterly, 2002). It is believed that colonialism in Africa was disadvantageous to the African (Muiu, 2010). Besides, Acemoglu and Robinson (2010) state that Britain did all they could to kill the boom of Ghana, through monopolistic institutions such as the Cocoa Marketing Board to buy cocoa at cheap prices from farmers, and by refusing to develop the country's infrastructure. This was despite the fact that the colonial rulers had been petitioned to develop the transport infrastructure, especially between Accra (the capital city), and Kumasi (the second biggest city) in the country.

Based on the above the following have been hypothesised:

H5: The Ghanaian formal institutions have positive effect upon UK FDI, regardless of FD mode.

H5a: Both informal ties and formal institutions do not have any effect on FDI if the motive is resource-seeking.

This view has also been supported elsewhere. It is stated that resource-seeking

companies will not necessarily exit or avoid investing in the country because alternative locations might be limited (Cantwell, *et al.*, 2010).

H5b: Informal ties in Ghana negatively relates with market-seeking UK FDI

Figure 4.6 displays the three hypotheses above, regarding the interrelationship between resource-seeking and market-seeking motives and institutions in relation to FDI. It must be clarified that institution as stated in the figure below encompasses both formal and informal ties between Ghana and the UK in accordance with (Holmes Jr., *et al.*, 2013; Seyoum, 2011; Bevan, *et al.*, 2004) who in fact used the terms formal and informal institutions in their research on FDI.

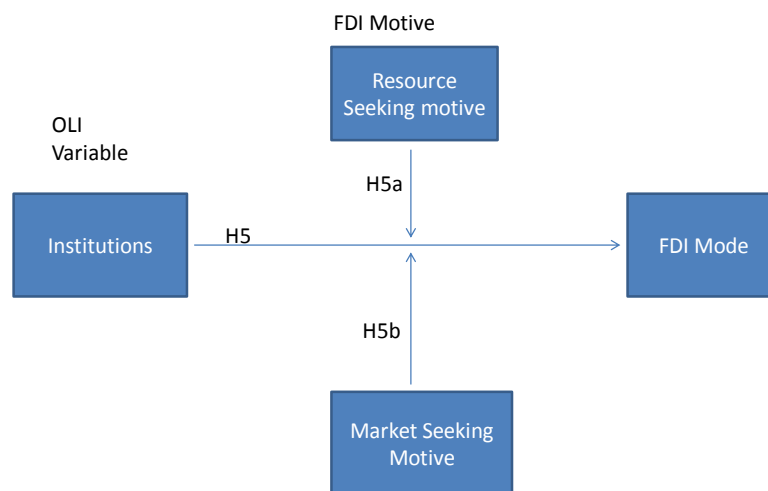


Figure 4.6: Institution moderated by resource seeking and market seeking motives

4.3.6. Agglomeration Opportunities

There are two types of agglomeration, namely horizontal and vertical agglomeration (Du, *et al.*, 2008). Horizontal agglomeration occurs when companies from the same industry are located in the same area. Vertical agglomeration

occurs where companies that could be connected through forward or backward integration are located in the same area. The literature is replete of research on the effects of agglomeration in attracting inward FDI (Procher, 2011; Tan and Meyer, 2011; Konrad and Kovenock, 2009; Bronzini, 2007; Dunning, 2000). The general consensus is that it positively correlates with FDI, as it offers companies the opportunities to share liabilities and complement one another. Dunning (2000) for example is of the view that foreign companies are now generally concentrating less on investing in countries rich in immobile natural resources. The emphasis is now on locating investment in areas where foreign companies would have the opportunity to form alliances with other companies to augment their own core competencies. For example, agglomeration is believed to grant access to knowledge, inputs, specialised labour and infrastructure (Du, *et al.*, 2008). The companies located in the same area may therefore serve one another as consumers and suppliers, thereby creating and satisfying demand. The fact that these companies are also located in proximity also reduces transportation cost and costs of knowledge acquisition. Chidlow, *et al.*, (2009: 121) also hypothesised that agglomeration is a significant motive for inward FDI, and that the stronger agglomeration factors are represented in a region, the more likely a multinational company will engage in FDI in that region. This is consistent with Waldkirch and Ofofu, (2010). They revealed that the presence of foreign companies has significantly positive productivity effect on foreign companies located in Ghana.

To take the argument for agglomeration opportunities even further, it can be postulated that the presence of more UK FDI in Ghana will create increase in the inflow of FDI to the country. This is consistent with Tan and Meyer (2011) who assert 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 (Miller, *et al.*, 2008; Manev and Stevenson, 2001). Besides, companies from the same country may

belong to the same formal and informal associations formed for the benefit of members.

Agglomeration has its disadvantages. For example, some companies may have their knowledge and core competencies copied by their competitors. It may also create competition and some foreign and domestic companies may be crowded out (Waldkirch and Oforu, 2010; Du, *et al.*, 2008; Ndikumana and Verick, 2008). However, there is evidence that agglomeration influences inward FDI positively. The following has therefore been hypothesised to confirm the extent to which agglomeration opportunities may influence UK companies to invest in Ghana:

H6: Agglomeration opportunities provided by both UK and non-UK companies in Ghana relate positively to UK inward FDI in Ghana regardless of the FDI motive.

This is because regardless of the FDI motive, there is still the possibility for companies to benefit from the presence of other companies. For example, resource-seeking companies may need other companies to maintain their equipment. Market-seeking companies such as Vodafone and MTN may also need other companies to provide their tower-sharing infrastructure. Strategic asset-seeking companies crucially need other companies to acquire the assets from (Tan and Meyer, 2011; Procher, 2011; Bronzini, 2007; Dunning, 2001). As a result, the following has been additionally hypothesised and displayed in figure 4.7:

H6a: The significance level of agglomeration in attracting FDI increases if motive is strategic asset-seeking

Figure 4.7 below depicts the two hypotheses above.

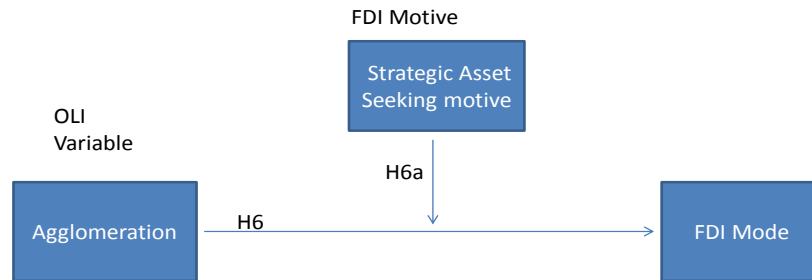


Figure 4.7: Agglomeration moderated by strategic asset seeking motive

4.3.7. Internalisation for Cost Reduction

According to Buckley, *et al.*, (2007), a company will continue to internalise in foreign imperfect markets until the cost of internalisation becomes higher than the benefits to the company. Therefore internalisation would be preferred unless it becomes less profitable to do so. Dunning (2009a) highlights cost reduction as an internalisation factor and emphasises that irrespective of ownership and location endowments, the actual question regarding whether or not to internalise a company's intermediate activities at home or abroad is answered by virtue of costs and benefits of adding value to investments. Rugman (2010) also highlights that Dunning, in his eclectic paradigm, essentially sees internalisation as transaction costs. The costs and benefits, as far as this research is concerned, include the need to protect the image and reputation of the company, maximise profitability, protect the technological capabilities of the company and the quality of products, which might be copied by competitors if high involvement and control entry mode is not adopted. This is consistent with Dunning and Kundu (1995), who also confirm the need to ensure adequate quality control, the need to coordinate the capabilities of the parent company and the economic and financial condition of the host country

as internalisation factors. However, if the cost of ensuring protection of the above and reducing uncertainty (Erramilli and D'Souza, 1995) will be higher than the benefits, then non-equity based FDI would be preferred. UK companies are therefore likely to use internalisation to reduce transaction costs in Ghana, due to the fact that, Ghana, like, most emerging markets conditions, has imperfect market (Dadzie and Johnston, 2008; Buckley, *et al.*, 2007). This need for cost reduction would be true regardless of the FDI mode. As a result of the above, the following have been hypothesised and displayed in figure 4.8:

H7: The need for cost reduction through internalisation positively relates with inward FDI regardless of FDI mode

H7a. Cost reduction through internalisation correlates significantly with efficiency-seeking FDI motive

This means the need for internalisation becomes even greater if the motive is efficiency-seeking, because it offers the UK companies the chance to manage the risks, expenditure and general operation of the company to reduce cost and maximise profits.

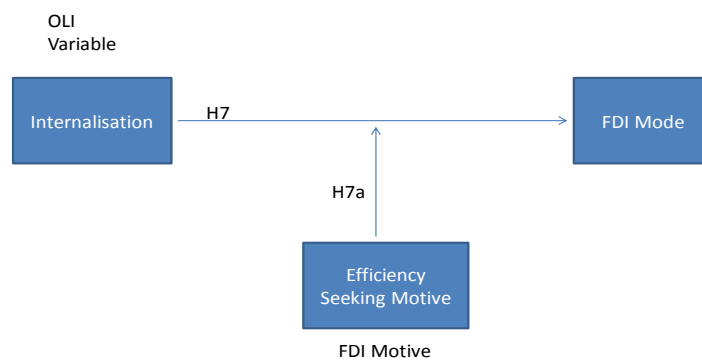


Figure 4.8: Internalisation moderated by efficiency seeking motive

4.4. Summary

This chapter revealed and justified the conceptual framework for this study, based on a review of the literature, the research aims and objectives and the research questions. It uncovered the key variables under investigation, and also presented the OLI paradigm as the theoretical underpinning for this research. The next chapter presents and justifies the methodology and methods adopted for this research.

CHAPTER: 5 METHODOLOGY

5.1. Introduction

The previous chapter developed the theoretical framework for this research. It also, presented the hypotheses which will be tested and discussed in chapters 6 and 7. The purpose of this chapter is to provide an in-depth description of the research process and its appropriateness for this research. It broadly consists of the research design, the research methods and the justification for their inclusion in this study. This chapter therefore reveals the targeted population, the sampling process, data collection and analysis. It presents how the validity and reliability of the research instruments were ensured, and provides the justification for the data analysis techniques used in this research. The research instruments used were a survey method to be able to reach a wider sample. Interviews were also conducted to offer further rich explanation and experience of the respondents to enhance understanding and appreciation of the determining factors of UK FDI in Ghana.

5.2. Research Paradigm

The theoretical paradigm has been described as “the basic belief system or worldview that guides the investigation” (Guba and Lincoln, 1994: 106). Creswell (2009: 6) also describes it as “the general orientation about the world and the nature of research a researcher holds”. He continues that worldview (belief system or paradigm) held by the researcher leads them towards the choice of quantitative, quantitative or mixed approach in their research.

The perception of the researcher therefore informs the methodology and methods that are used in a particular piece of research, because the paradigm acts as a set of lenses for the researcher (Burke, 2007). Thus, the examination of research philosophies should precede the choice of methodology (Guba and Lincoln, 1994), because the direction of the research depends on how the researcher views the

world and how in his or her perception, knowledge should be developed or acquired.

The number of worldviews as presented in the literature differs from researcher to researcher. While Creswell, (2009) states there are four worldviews (postpositivism, constructivism, Advocacy/participatory and pragmatism), Onwuegbuzie *et al.*, (2009) offer five worldviews (Postpositivism, constructivism, critical theory, participatory and pragmatism (see table 5.1). They continued with a presentation of thirteen paradigmatic elements which guide how a researcher with any of the worldviews carries out the research. These elements are ontology, epistemology, methodology, rhetorical, nature of knowledge, knowledge accumulation, goodness or quality criteria, axiology or values, inquirer posture, training, qualitative analysis and quantitative analysis. Saunders, *et al.*, (2007) only highlight three of the paradigmatic elements in business research namely epistemology, ontology and axiology; and Mertens (2010) presents four which are methodology, epistemology, ontology and axiology. Onwuegbuzie *et al.*, approach (ibid) provides a summary of the various worldviews or philosophies which underpin research process and these worldviews are presented in table 5.1. Their summary is very useful because it explains the choice of philosophy, the research methods, as well as the choice of the rhetoric used in the presentation of the findings.

Paradigmatic Element	Postpositivism	Constructivism	Critical Theory	Participatory	Pragmatism
Ontology	Enquiry should be objective	Multiple contradictory, but equally valid accounts of the same phenomenon representing multiple realities	Virtual reality influenced by social, political, cultural, ethnic, racial, economic and gender values that evolve over time	Subjective-objective reality co-created by mind and given world order	Multiple realities (i.e. subjective, objective, intersubjective) reject traditional dualisms (e.g. subjectivism vs objectivism; facts vs values): high regard for the reality and influence of the inner world of human experience in action; current truth, meaning and knowledge are tentative and changing.
Epistemology	Researchers should eliminate the biases, remain emotionally detached and uninvolved with the objects of study and test or empirically justify the stated hypotheses	Subjective knower and known are not separable; transactional/subjectivist co-created findings/ meaning	Transactional/subjectivist value-mediated findings	Experiential, propositional and practical knowing; co-created findings	Knowledge is both constructed and based on the reality of the world we experience and live in; justification comes via warranted assertability
Methodology	Time-context-free generalisations are desirable and possible and real causes	Hermeneutical/dialectical; impossible to differentiate fully causes and effects; inductive reasoning; time- and context-free generalisations are	Dialogic/dialectical	Political participation in collaborative action research; emphasis on	Thoughtful/dialectical eclecticism and pluralism of methods and perspectives; determine what works and solves

	of social scientific outcomes can be determined reliably and validly by quantitative (and sometimes qualitative) methods	neither desirable nor possible.		practical	individual and social problems
Goodness or Quality Criteria	Reliability, Internal validity, external validity, objectivity	Trustworthiness, dependability, confirmability, transferability, authenticity	Historical situatedness; reduction of ignorance and misconceptions; involve participants in knowledge construction and validation	Congruence of experiential, presentational, propositional knowing leads to action to transform the world	Reliability, internal validity, external validity, objectivity, trustworthiness, dependability, confirmability, transferability; authenticity
Inquirer Posture	Objective scientist and informer of decision makers, policy makers and change agents	Passionate participant as facilitator of multivoice reconstruction	Transformative intellectual as advocate and activist	Primary voice manifest via aware self-reflective action, secondary voices in revealing theory, narrative, etc	Offers pragmatic method for solving traditional philosophical dualism as well as for making methodological choices

Table 5.1: Research paradigms and distinguishing characteristics

Adapted from Onwuegbuzie, *et al.* (2009: 122)

Though table 5.1 explains the paradigmatic elements in relation to the five worldviews, below is a closer look at the four main elements that are normally discussed in the literature, namely epistemology, ontology, axiology and methodology (Mertens, 2010, Onwuegbuzie, *et al.*, 2009; Saunders, *et al.*, 2007):

5.2.1. Epistemology

Epistemology has been described as the theory of knowledge, or the “way of understanding and explaining how we know what we know” (Crotty, 1998:3). Different authors have defined this term slightly differently, but the theme that features in all definitions essentially is what is considered as acceptable knowledge and the truth. It refers to what must be conceded as an acceptable knowledge in a particular field of study or discipline (Bryman and Bell, 2007). According to Zakus, *et al.*, (2007), the debate on epistemology hinges on the question of how people acquired the knowledge they have empirically, rationally or transrationally. For the purpose of this research, the epistemological consideration looks at whether or not the research should be conducted in the same procedure as the natural sciences for the knowledge obtained from the study to be accepted as valid or acceptable. The next section presents the next paradigmatic element, namely ontology.

5.2.2. Ontology

Brand quotes a definition of ontology from Guba and Lincoln (1994) as being the question of “what is the form and nature of reality, and, therefore what is there that can be known about it?” (Brand, 2009: 437). It has also been defined simply as beliefs regarding the nature of reality (Leech, *et al.*, 2010; Morgan, 2007) or the nature of the social world (Tashakkori and Creswell, 2008). That is, it is about the beliefs and assumptions a particular researcher has about the way the world operates. Saunders *et al.*, (2007) list two main perspectives from which the nature

of reality could be looked at, namely Objectivism and Subjectivism.

The proponents of **objectivism** believe that social phenomenon is external to researchers or social actors and therefore cannot be influenced (Bryman and Bell, 2007). As a result, research about social phenomenon need to be conducted objectively. The proponents of **subjectivism** on the other hand are of the view that social phenomenon emanates from people's perceptions and behaviours (Lewis and Runde, 2007). Therefore researchers collect data in an attempt to capture the individual's perception about the particular subject under investigation. The ontological position of this current research is that there are multiple realities, including subjectivism, objectivism (Onwuebguzie, *et al.*, 2009). The next section presents the third paradigmatic element, namely axiology.

5.2.3. Axiology

Morgan (2007) defines axiology as the philosophy of values, ethics and aesthetics. It simply refers to what is considered valued or right in research (Mingers, 2003). Thus, it is a branch of philosophy that studies judgement about values. Generally axiology provides theoretical explanation of the way people behave and how they exhibit those behaviours. Zakus and Malloy, (2007) in their discussion of the use of axiology in sport management list various types of values, namely core values, adopted values, intended values and weak values. The probability of people practising a particular value depends on the type of value. Therefore people are generally unlikely to act upon weak values because they are values people claim they believe in but do not put them into practice. People who consider a stance as core value will put the dictate into action, no matter the consequences. A researcher might act upon adopted values because they are enforced by the society or the organisation he or she works in. A practical example is the need to seek the consent of children from their parents before they are involved in interviews. An author may not necessarily agree to this, but will have to adhere to this directive before the findings may be accepted by society. It is believed that

choosing a topic instead of another, and the research approach, including methods of data collection, analysis and presentation all demonstrate the judgement values the researcher puts into practice (Saunders, *et al.*, 2007).

Thus, the values of the researcher play a tremendous role throughout the research process if the knowledge obtained from the research is to be regarded as credible. In this research, the author's interest in the topic has been influenced by his background as a Ghanaian, currently residing in the UK. Implicitly, the research reveals factors that contribute to trade and investment between his two homes. To minimise any bias this background might bring on the findings of the research, explanatory mixed design was adopted (Creswell, 2010). This design emphasised the quantitative approach and therefore improved objectivity (Harrison and Reilly, 2011). To satisfy the axiological requirements of this research, all sources of information were clearly acknowledged. Besides, the informed consent of all respondents was sought, and their confidentiality was respected. The purpose of the research was explained to the respondents. Recorded interview were transcribed and sent to the respondents to confirm the accuracy of the information and also confirm that they were happy for the information to be included in the study.

5.2.4. Methodology

Methodology has been described as the approach taken to conduct a scientific enquiry (Creswell, *et al.*, 2003). According to Crotty (1998) methodology refers to the strategy, plan of action, process or design underpinning the selection of particular research methods, and linking the choice of methods with the desired outcomes. This is in agreement with Owuegbuzie *et al.*, (2009) as shown in table 5.1, because methodology differs according to the worldview of the researcher as the worldview dictates the desired outcome. For a positivist or postpositivist, the methodology suggests the use of mainly quantitative methods and only occasionally qualitative methods of data collection and analysis with the view of

arriving at possible and desirable generalisations, which do not depend on the time or context of the study.

However, from table 5.1, the pragmatic worldview accepts whether the research outcome is generalisable or not, provided it fulfils the aims and objectives of the research. The section below presents detailed information about the beliefs and methods of the pragmatists, and provides justification for why the pragmatic approach was adopted for this research.

5. 3. Pragmatism

Pragmatism is believed to have been started by three Americans, namely Charles Sanders Peirce (1839-1914), William James (1842-1910) and John Dewey (1859-1952). The proponents here are of the belief that what is paramount in the research is not the philosophy or paradigm but the research question (Harrison and Reilly, 2011). This may sound contradictory because it is the researcher's philosophy that guides the entire research process (Guba and Lincoln, 1994). However, there is no controversy, because pragmatism is a philosophy of its own which guides the research of those who hold that worldview (Creswell, 2009), and that pragmatic worldview encourages researchers to focus on the research question rather than philosophical differences. This is because different philosophies are accommodated under the worldview of pragmatism (Creswell, 2009; Onwuegbuzie, *et al.*, 2009; Teddlie and Tashakkori, 2009), hence the need not to dwell on potential incompatibility of philosophies.

The pragmatic worldview highlights that what is true is what works (Benton and Craib, 2001). Therefore the research question determines the research philosophy to adopt (Rudd and Johnson, 2010), knowing that different philosophies would ultimately be accommodated under the eclectic worldview of pragmatism. This flexibility afforded by pragmatism is essential because it has been argued that all research methods are incomplete, therefore methodological pluralism should be

encouraged (Ruokonen, *et al.*, 2008; Hurmerinta-Peltomaki and Nummela, 2006). Furthermore one philosophy may be more appropriate in answering a particular research question than another (Saunders, *et al.*, 2007). Pragmatism attempts to avoid the philosophical arguments by highlighting that there could be one reality (positivism/postpositivism) or multiple realities as projected by constructivism (see table 5.1 and also Feilzer 2009). Like any research philosophy, pragmatism is not without criticism. It has been perceived as an attitude of compromise and accommodation - an attitude that has been described as pathetic (Crotty, 1998).

However, over the years, pragmatism has grown to represent a credible worldview as it is based on real action, situation and consequence (Creswell, 2009). Pragmatism is not a compromise or an accommodation, especially in relation to quality and goodness of the research outcome. For example, according to Onwuegbuzie *et al.*, (2009), research underpinned by pragmatism still ensures reliability, internal validity, external validity, objectivity and authenticity as the postpositivists would project. It considers the research from an additional perspective, thereby adding value to what has been established or could be established through the empirical investigation (Ruokonen, *et al.*, 2008; Hurmerinta-Peltomaki and Nummela, 2006). It therefore taps into the advantages of different methods.

Pragmatism focuses on solving pressing, practical contemporary problems, and to do this, the acquired knowledge needs to be put into action (Fendt, *et al.*, 2008). Thus, theory should support practice, and the review of theory is done based on information obtained from experience (Paucar-Caceres, 2009). With this approach, the researcher is able to combine aspects of both the positivist and interpretivist perspectives in the same piece of research. Thus, the researcher is able to combine both qualitative and quantitative research methods in the same piece of study as suggested by researchers who have used the mixed methods approach (Rudd and Johnson 2010; Arora and Stoner; 2009; Feilzer, 2009; Green, 2008; Alkaraan and Northcott 2007). Essentially, pragmatists reject the incompatibility thesis (Onwuegbuzie, *et al.*, 2009). Feilzer (2009) for example states that

pragmatism focuses on the issues under investigation and the effects of the research, and offers an alternative worldview to positivism/postpositivism on one hand and the constructivism or interpretivism on the other. This liberates the researcher from the need to conform to the dictates and methods of a particular paradigm (Onwuegbuzie, *et al.*, 2009). Creswell (2009: 10-11), in reference to Cherryholmes (1992) and Morgan (2007) as well as his personal view stated that pragmatism offers philosophical foundation for research. He also presented some principles which inform the choice of the pragmatic paradigm for this current research:

First, pragmatists are not bound to one reality, and this allows mixed methods research approach to combine as much quantitative and qualitative data as required in a research project. As a result this current research contacted all UK companies in Ghana through the survey method for as much quantitative data as possible, still maintaining the need to ensure reliability and validity required in quantitative research. It was then followed up by interviews to offer further explanation to the research findings.

Second, the individual researcher has the freedom to choose methods, procedures and techniques that meet the needs and purposes of the research. In a similar way, this current research combined the use of paper-based questionnaire and web survey to respond to the difficult data collection conditions which have been explained in section 3.13).

Third, pragmatists do not see the world as an absolute unity; and this research acknowledged this and considered different methods of collecting and analysing data (see chapters 6 and 7).

Fourth, pragmatists believe the truth is what works at the time, a view which has been erroneously used as an analogy for the previously held belief that the earth was flat. In this regard Benton and Craib (2001: 86) stated the following:

“It (pragmatism) can easily be seen as involving the notion that what is true is what works.

Clearly this is not a very helpful epistemological criterion - the theory that the earth is flat works perfectly well in my day-to-day actions”.

Benton and Craib’s analogy above is inaccurate because the theory of “the earth is flat” does not hold anymore, and pragmatism offers the researchers the chance to accept the new truth if one emerges. This is because the pragmatists’ ontological position is that current truth should be held in high regard but it is tentative and can change with time (Onwuebguzie, *et al.*, 2009). For the purpose of this research what is truth is what current UK companies in Ghana have stated as important and unimportant to their investment in Ghana. With time the factors may change, for example if the infrastructure condition is found to be a deterrent to UK FDI in Ghana, and eventually the level of infrastructure is developed to an acceptable standard to the investors, it is unlikely investors would still confirm infrastructure as a deterrent to their investment. Therefore what worked as an answer to the questionnaire was the truth to the respondent, and it is expected to remain the truth until dramatic changes happen.

The fifth principle from Creswell (2009) that underpins pragmatism is that pragmatists look at what and how to research based on the intended consequences (also see Kelemen and Rumens, 2012). Similarly, ‘what to research’ in this current research emerged from the author’s interest in FDI research, but focusing specifically on UK FDI in Ghana emerged from an identification of a gap in the literature in relation to the author’s home country. How to conduct the research was influenced by the realisation that the UK companies in Ghana could all practically be reached by a questionnaire. Secondly to add value to the outcome and also obtain an insight from the investment promotion agencies, the findings from the survey could be augmented with interviews and a case study to offer potential investors practical examples of companies’ experiences. The intended consequences were therefore to fill the gap in the literature and also to boost the attraction and retention of FDI from the UK to Ghana, due to the potential benefits to both countries.

The sixth, principle is the acknowledgement that research takes place in a context such as political, historical, or social, which means the research has to be

perceived from a particular lens. In accordance with this view, though this research was conducted to make academic contribution, it was conducted from the context of not only considering historical factors of why companies located in Ghana, but also in the context of factors which would contribute in retaining them in the country.

Due to the above benefits of the pragmatic approach to research such as offering the rigour of quantitative research as well as the richness of qualitative research, the acknowledgement of context as well as the intended consequences of filling an important academic gap and also contributing in attracting FDI, the choice of pragmatism is justifiable.

Having confirmed that the research paradigm determines the type of research to be conducted, the next section considers the various types of data which may be used according to one's worldview (Creswell, 2009).

5.4. Types of Data

Data are basically classified as either qualitative or quantitative. According to Saunders, *et al.*, (2007), quantitative data can be further classified into two main types, namely categorical and descriptive or nominal data. Categorical data, as the name suggests, is where data are put into groups depending upon their characteristics. The members or items in each group can then be quantified into nominal data. Quantitative data falls in the paradigm of positivism and neopositivism (Adams, *et al.*, 2007). The proponents of this paradigm perceive reality in terms of variables and the relationships among them. They therefore approach research with predetermined hypotheses or research questions, conceptual frameworks and design (Creswell, 2009; Onwuegbuzie, *et al.*, 2009). The main advantage of the quantitative data is that it minimises ambiguity and makes it easier for occurrences or variables to be ranked and measured as can be seen in disciplines that rely on statistics.

5.5. Sources of Information

There are two main sources of information, namely primary and secondary.

5.5.1. Secondary Sources of Information

This type of information is readily available in journals, books, libraries and on the web. Depending upon the relationship between the researcher and the subject being researched, data may be obtained from internal or external sources (see Adams, *et al.*, 2007). The researcher obtains internal secondary data for the research from the organisation he or she works for. This current research relies on external secondary sources which are organisations and people outside Edinburgh Napier University. These include UNCTAD publications, the World Bank, and previous research published in journals. Secondary source of information is very important because it saves time and resources. Besides, there are far fewer ethical issues to contend with for the researcher, compared to the primary sources. Also, this information is generally regarded as more accurate (Adams, *et al.*, 2007). For example, information obtained from refereed journals is normally edited to minimise factual inaccuracies. Analysis and interpretation of secondary data is also relatively easier, as it is normally presented in well-organised and well-presented format to aid understanding, and it is generally peer reviewed.

The disadvantage, as far as this research is concerned, is that secondary information was produced by other researchers with different aims and objectives (Churchill, 1995). Different researchers have different experiences and philosophies (Onwuegbuzie *et al.*, 2009), and it is not easy to determine the extent to which these have influenced the results. However, secondary sources remained integral part of this research because they provided the basis for the theories and variables for this research (see the literature review and the conceptual framework chapters). The purpose of this research was therefore to investigate the extent to which the already identified theories and variables in relation to the determinants of FDI apply as far as the UK investor in Ghana was concerned. As secondary data

on UK FDI in Ghana was unavailable, primary sources of data were used as discussed in the next section.

5.5.2. Primary Sources of Information

Researchers rely on primary sources information when research questions that need to be answered cannot be obtained from documented sources. The main advantage of primary data, apart from the fact that it provides information which hitherto was not available, is that it allows the researcher to customise the data from the appropriate sources to suite the particular research question. For the above reasons, this research relied heavily on primary sources of data. Information on the reasons behind UK investors' decision to have long-lasting commitment to investment in Ghana is currently not available. The pieces of research that have been done on determinants of FDI in Ghana focus on FDI in general without any emphasis on FDI from a particular country (Achempong and Osei, 2014; Owusu-Antwi, 2013; Djokoto, 2012; Nyarko, et al., 2011; Barthel, *et al.*, 2011; Acquah, 2009; Harvey and Abor, 2009; Kyereboah-Coleman and Agyire-Tettey, 2008; Mmieh and Owusu-Frimpong, 2004; Boateng and Glaiter, 2003).

The primary data sources are not without disadvantages, though. It is believed that collecting primary data can be very expensive and time consuming (Adams, *et al.*, 2007). Besides, respondents may be reluctant to cooperate with the research in terms of accepting to answer the required questions. Also, without the appropriate tools, the findings of the research may not be accurate. However, this was the only way to get the required information for this research. Besides, various steps have been identified in the literature to minimise cost and improve response rate such as internet survey, pre and post survey telephone calls and follow-up with official letters (Fan and Yan, 2010; Wiley, *et al.*, 2009). Similarly, these steps were used to minimise the disadvantages of collecting primary data for this research.

The primary sources of data, according to Ghauri and Kronhaug (2002) include

observation, experiment, interview and survey. This current research did not collect data from observation, experiment or diary method, therefore below are the justification and the description of the sources used:

5. 5.2.1. Survey

This has been defined as a method to collect information about characteristics, actions or opinions of a large population (Al-Omiri, 2007). It is a popular and common method in management research, and it is normally associated with deductive research approach. This method is effective in answering research questions such as what, where, how much, how many and who. There are various advantages and disadvantages associated with this method, depending upon the mode selected for the particular research. According to Fan and Yan (2010) survey modes include mail (or postal survey), telephone, email and the web. They believed that web survey in particular is very popular because of its unique advantages such as offering the researcher varied design options. It is also relatively faster because it takes far less time for the researcher to send questionnaires to the respondents and for the respondents to send their responses to the researcher. Besides, the researcher is able to input data obtained from web survey quicker. Furthermore, survey method is generally cheaper. The use of questionnaire to collect quantitative data makes it possible for the researcher to compare responses from different respondents, and the research outcome is authoritative, as the findings are generally accepted as representative of the population (Al-Omiri, 2007), if the sample is valid and representative of the population.

The survey method is not without disadvantages, the main problem being the low response rate (Adams, *et al.*, 2007). Fan and Yan (2010: 132) define response rate as the number of completed units divided by the number of eligible units in the sample. A low response rate affects the validity (the extent to which the research has measured the issues it set out to measure) and reliability (the extent to which

the result of the research is repeatable) of the research findings. However, this research relied heavily on survey method due to the above advantages. Besides, some measures have been identified as contributing to improve the response rate to an acceptable level. For example Rao (2009) made telephone calls to the 104 respondents before delivering the questionnaires and believed that improved the response rate. Also, Wiley, *et al.*, (2009) stated that a follow up with a letter or a postcard increased the response rate in 38 of the 42 studies considered. They also believe that incentives such as money, vouchers and donations improve response rate, despite the inconsistencies in the literature regarding whether incentives have significant effects on the response rate. Therefore, to increase the response rate, this research relied on a combination of measures such as pre-survey telephone calls to all 286 UK companies with FDI in Ghana, follow-up letters and telephone calls as well as offering to make available a summary of the research findings to the companies that take part in the study. These measures were practicable, due to the very limited number of UK companies in Ghana. Another disadvantage of the survey method is that there are only a limited number of questions that can be asked with a questionnaire (Saunders, *et al.*, 2007). To minimise the effect of this disadvantage, this research used follow up telephone and personal interviews where the required answers were not provided through the survey, and this proved to be effective.

5. 5.2.2. Case Study Method

Case study research is a qualitative method that has been used for several years in several disciplines including economics, management, education and sociology. It has been defined as an 'an empirical inquiry that investigates a contemporary phenomenon within its real life context, especially when the boundaries between the phenomenon and context are not clearly evident' (Yin, 2003: 13). This definition has attracted much debate and criticism though it remains the cornerstone in case study research, especially in the area of industrial marketing (Pierkkari, *et al.*, 2010). The key target of the criticism is the use of the word 'contemporary'. Some

researchers are of the view that contemporary and historical events are sometimes intertwined, and it is therefore very difficult to categorise events into past and present. This is particularly because some of the current events in organisations may well have been as a result of events in the past (Woodside and Wilson, 2003). Generally case study research is a detailed study of one or a small number of organisations, individuals, geographical areas or events over a given period of time (Adams, *et al.*, 2007). Data obtained for case research are taken from multiple sources, which may include interviews, observation and document analysis in order to obtain detailed information required (Dubois and Gibbert, 2010; Easton, 2010; Stavros and Westberg, 2009) to allow the researcher to understand complex phenomena (Aastrup and Halldorsson, 2008). This current research only used one case study as part of the process of understanding the experiences and the determinants of FDI (Appendix L). The importance of context within which the case study is being conducted cannot be overemphasised. This is because the phenomenon being studied and the context of the study are completely intertwined (Sedmak and Longhurst, 2010; Yin, 2003). The context of the study may have effect on the information that is made available to the researcher.

Case Study research is very useful because it is able to answer why, how and what questions in management research, and therefore mainly employed in exploratory and explanatory research (Easton, 2010; Sedmak and Longhurst, 2010; Saunders, *et al.*, 2007). According to Dubois and Gibbert, (2010) it is also used for theory building and testing. They continue that one of the main advantages of the case research is its ability to include a broad set of data, despite the fact that some scholars are of the view that case research is deficient in terms of rigour, validity (the absence of systematic error in the measurement process) and reliability (the absence of random error in the measurement process) to ensure possible replication of the study (see Woodside, 2010). However, the use of triangulation and increasing the number of cases observed are noted to improve the validity and reliability of the case research outcome (Stavros and Westberg, 2009). Despite the usefulness of case study only one was included in this study due to time constraint (Appendix L). Therefore the survey method was the main

source of primary data, with a case study and interviews providing supplementary roles in offering a practical example of the determinants of the FDI mode, and the findings have been integrated in chapter 7.

5. 5.2.3. Interview

Interview as far as research is concerned is a conversation between two or more people to collect valid and reliable data that answer research questions and meet research objectives (Sedmak and Longhurst, 2010). This is normally regarded as the best method of data collection, and can be considered in terms of whether it is structured, semi-structured or unstructured (Easterby-Smith, *et al.*, 2008; Punch, 2006). Structured interview is used when the researcher asks different respondents the same set of questions. This is what Saunders *et al.*, (2007) refer to as interviewer-administered questionnaires. The researcher, as much as possible reads the questions to different respondents in the same sequence using the same tone. This is to avoid any form of bias attributable to inconsistent interviewing practices (Hair, *et al.*, 2007). Apart from the initial conversation between the researcher and the respondent to explain the purpose of the research, the rest of the interview process is very much like a questionnaire. This is normally used to collect quantitative data (Bryman and Bell, 2007).

With semi-structured interview, the researcher has a set of questions and themes but he or she is able to vary the order, tone, duration, the number and type of questions, to suite the individual respondent or group of respondents. For example duration for semi-structured interviews conducted by Johnson, *et al.*, (2007) ranged between one hour and two hours. This allows the respondents to answer the questions in as much detail as they want, and it also enables the researcher to probe as much as necessary for the research (Arora and Stoner, 2009). This type of interview is normally audio-recorded. Note-taking could also be used. Unstructured interview, which is sometimes referred to as in-depth or depth interview is very informal and allows the researcher to obtain information about

themes without using a predetermined set of questions (Hair, *et al.*, 2007). The researcher freely has a conversation with the respondents about the themes he or she wants to research. Just like the semi-structured interview, the unstructured interview is normally audio- recorded or recorded through note-taking.

Interviews can also be looked at in terms of mode, such as face-to-face, telephone or internet interview. Whatever mode that is selected, the degree of standardisation can be looked at as stated above (structured, semi-structured and unstructured). Each method or mode of interview has its unique advantages and disadvantages, and a choice of one method depends on the research purpose and strategy. For example, the telephone interview saves time and money, compared to the face-to-face interview (Al-Omiri, 2007; Oppenheim, 1994). However, the researcher will not be able to observe paralinguistic features which normally enhance the meaning of expressions. For example the respondents may use sarcasm which could be detected as a result of facial paralinguistic cues (Rankin, *et al.*, 2009).

For the purpose of this research, a semi-structured interview was considered more appropriate because it helped to understand the relationship between variables. This research focused on predetermined variables such as market size and political risk and the role they play in investment decision making, and fits perfectly with the functions of semi-structured interview as stated above. Besides, this research is exploratory in nature. Therefore the findings from the survey were augmented by the findings from the semi-structured interview (Jepsen and Rodwell, 2008). This is because semi-structured interview in general allows respondents to expand or elaborate on their responses (Rudd and Burke Johnson, 2010).

Having considered the philosophies for research, types of data and sources of data available to a researcher the next section discusses how this current research was designed.

5.6. Research Design

Based on the review of the research philosophies, the advantages and disadvantages of the research methods and the pragmatic paradigm adopted for this research, mixed methods research approach was used in this study (Harrison and Reilly, 2011, also see section 5.3). Apart from mixing qualitative and quantitative data, the research combines primary and secondary sources of information in the following manner:

First, secondary sources such as UNCTAD, IMF and World Bank publications and journal articles have been consulted in order to list variables that have been identified in Africa and other regions as determinants of FDI.

Second, the Fame database, the Who Owns Whom Directory and GIPC, were consulted and 286 UK companies were identified as having subsidiaries in Ghana. To be able to reach all these companies, explanatory mixed research design (Creswell, 2009; Teddlie and Tashakkori, 2009) was adopted by the use of survey, interviews and a case study. Explanatory mixed research refers to a combination of both quantitative and qualitative data, with the quantitative data given unequal priority (Harrison and Reilly, 2011).

Conducting a completely qualitative study was not appropriate for the purposes of this research. This is because of the disadvantages that are associated with this method. Personal interview is an expensive method of research (Bryman and Bell, 2011). Apart from being time-consuming, personal interviews are also susceptible to interviewer influence and the mood, memory and attitude of the respondent and the relationship between the interviewer and the interviewee. To minimise the above difficulties, the pragmatic approach, which is noted to be relevant for all kinds of research (Feilzer, 2009) was adopted. The research used a web survey and paper questionnaire to exploit the advantages of reaching all the 286 UK companies at a cheaper cost. Web survey is also faster than the other survey methods (Fan and Yan, 2010). Respondents also had sufficient time to consult

other sources of information such as colleagues and superiors to answer questions they did not readily have answers to. They were also able to save their responses and return to the questionnaires whenever convenient.

Before the questionnaires were sent, telephone calls were made to all companies to identify members of staff in each company that had a significant role to play in making foreign investment decisions or those who were in a managerial position who would be in the best position to answer the questionnaire. These potential respondents were then sent a letter to explain the purpose of the research and also to notify them to expect the web survey. They were also assured of the confidentiality of their responses, and as an incentive, they were given the choice to be sent a summary of the findings of the research. This improved the validity and reliability because the responses could be contrasted to establish commonalities and recurrence of themes (Saunders, *et al.*, 2007). As the majority of the questionnaires were hand-delivered and picked up, it was not difficult to identify those who had not responded, and this information was used to facilitate the follow-up.

It is believed that a follow-up letter to the respondents also improves the response rate (Wiley, *et al.*, 2009). Therefore first and second waves of follow-up were conducted. Also structured telephone interviews were offered to organisations that did not return the questionnaires. Data received from questionnaires and interviews were analysed both qualitatively and quantitatively (Teddle and Tashakkori, 2009). It was expected that more data would be received in the course of the research, and the pragmatic approach made provision for the inclusion of such data. Feilzer (2009) mentions that research based on pragmatic approach may lead to heterogeneous results, and need to be interpreted with care. However, all research findings need to be accepted, rejected or interpreted with care, due to both controllable and uncontrollable factors such as time, cost, culture and ideology that may influence the results

As seen above, mixed methods research can take different forms, and many

typologies have been examined in the literature to justify the weighting of the quantitative-qualitative data combination and at what stage of the research the combination takes place, depending upon one's philosophy and the purpose of the research (Harrison and Reilly, 2011). The choice of mixed research design hinges on a number of factors, including the following, according to Creswell (2009):

Timing: this refers to whether both the quantitative and qualitative data should be collected at the same time (concurrent research design) or whether they should be collected in stages (sequential design). This current research was conducted sequentially, starting with the quantitative data and the qualitative data in phase 2.

Weighting: This refers to whether emphasis is laid more on the quantitative data, qualitative data or if both the quantitative data and the qualitative data are given equal priority. In this research, priority is given to the quantitative data because of the advantages of the survey methods including the possibility of giving bigger sample of the population opportunity to participate in the study (Saunders, *et al.*, 2011; Wiley *et al.*, 2009). Therefore the questionnaire was sent to all 286 companies in Ghana and 101 usable responses were analysed. However, only eight interviews and one case study were used in the qualitative component of the data in order to offer the quantitative component of the research an unequal advantage in accordance with the explanatory research design (Harrison and Reilly, 2011).

Mixing: This answers the question of when and how the qualitative and quantitative data are combined, according to Creswell (2009). He continues that the combination may take place at the data collection stage, analysis stage or the interpretation stage - what Harrison and Reilly (2011) have described as the discussion stage. This research combines the qualitative and quantitative data at the discussion stage (Chapter 7). Regarding how the data is combined, the table below from Teddlie and Tashakkori (2009: 162), which is a simplified version of a typology by Creswell and Plano Clark (2007), provides an explanation. Though there are more complex typologies than this, it is sufficient for the purpose of this

research as it contains the approach adopted.

Table 5.2: Typology of mixed methods design and variants

Design Type	Variants	Notation
Triangulation	Convergence Data transformation Validating QUAN data Multilevel	QUAN + QUAL
Embedded	Embedded experimental Embedded correlational	QUAN (qual) or QUAL (quan)
Exploratory	Instrument Development Taxonomy	QUAL → quan
Explanatory	Follow-up explanations Participant selection	QUAN → qual

Source: Teddlie and Tashakkori (2009: 162)

Below is a detailed explanation of each of the four typologies in order to justify type selected for this study:

5.6.1. Triangulation Mixed Design

Triangulation has been defined as a procedure used by researchers to confirm validity by using different methods in search for convergence (Salehi and Golafshani, 2010). This typology is the most familiar. With this approach, the researcher compares the findings from the qualitative research with the findings from the quantitative research in order to find our similarities or differences of findings. The weighting given to each data form is generally the same but this may not always be possible in practice. It is believed that it addresses the limitations of a research method by complementing its weaknesses with the strengths of another (Jogulu and Pansiri, 2011; Tronvoll, *et al.*, 2011). Despite the fact that this typology is useful, it has its limitations. For example, in the combination process, it is difficult to decide which side of the argument one should take (whether to accept the findings of the qualitative research or the quantitative research). Creswell (2009) stated that there are ways to resolve such conflicting results. One way to resolve this is to collect additional data. However, due to time constraint and the fact that

most of the companies were contacted a number of times through the follow-ups to improve the response rate (see Wiley, *et al.*, 2009), the triangulation mixed design was not adopted to avoid the possibility of having to contact the companies repeatedly.

5.6.2. Embedded Mixed Design

With the embedded design, qualitative and quantitative data are collected sequentially or concurrently. However one form of the data provides a supporting role for the other, or both qualitative and quantitative data provide a supporting role for a bigger design such as a case study, ethnography or narrative (Creswell, 2009). 14 per cent of articles in marketing journals studied by Harrison and Reilly (2011) adopted this approach. This current research does not use the embedded approach because the primary and the supporting methods in the embedded design answer different questions. The purpose of this current research was to enable the companies to be asked different questions or the same questions as the primary method for further insight (Creswell, *ibid*). Therefore the embedded approach was not suitable for the purpose of this research.

5.6.3. Exploratory Mixed Design

The exploratory mixed research design starts with the collection and analysis of qualitative data. Then at the second phase, quantitative data is collected separately and analysed to build upon the findings of the qualitative research. Similar to triangulation method, this design also complements the weakness of one method (qualitative in this case) with the strengths of another (in this case quantitative). Harrison and Reilly (2011) studied 34 articles which used the mixed methods design. The articles studied were published in major marketing journals. It was confirmed that majority of the studies were conducted using the exploratory design (47 per cent). They stated that this design is mainly used when the

variables are unknown, when one wants to generalise qualitative findings, refine or test a developing theory. With exploratory design the weighting as defined above by Creswell (2009) is in favour of the qualitative data. As the variables for this research were already known through the use of the OLI paradigm, this typology was not required for the purpose of this research.

5.6.4. Explanatory Mixed Design

This design is directly the opposite of the exploratory design in terms of the weighting and the timing. It starts with the collection and analysis of quantitative data. Then as a follow-up, qualitative data is collected and analysed. Harrison and Reilly (2011) found 25 per cent of their study of mix design research in marketing journals to have used the explanatory approach. The qualitative data provide better understanding of the quantitative data which is given an unequal priority.

This current research adopts the explanatory approach because the variables considered are already known and could be measured with the quantitative methods. The purpose of the qualitative data is to offer additional information and explanation to the quantitative data. Similar to all mixed methods typologies, this approach potentially strengthens the findings of the quantitative research by offering qualitative explanation of the quantitative results in general and particularly unexpected results. The quantitative data received also determines which respondents to select for the collection of the qualitative data. As strongly advocated by Birkinshaw *et al.*, (2011) judicious combination of both qualitative and quantitative data deserves a place in International Business research, rather than dominant reliance of quantitative research. Similarly, Sullivan and Daniels (2008) recommended what they called a multiparadigmatic perspective to exploit how both the scientific and humanists perspectives complement each other in International Business research. The explanatory research approach adopted therefore contributes in answering these calls.

5.7. Questionnaire Design

Questionnaire was used to collect the quantitative data for this study. One of the guiding questions when designing a questionnaire is how much is already known about the subject under investigation (Oppenheim, 1994). As this research adopts the OLI paradigm to study variables which have already been theoretically established as significantly related to the inflow of FDI, the questions asked respondents to state their perception of the effects of the known variables. Also, though this research is unique, some questionnaires in the areas of Marketing and International Business in general were reviewed as part of the validity process. The five point Likert scales were used in most cases because of its simplicity and offering respondents the chance to remain neutral if they wanted to. According to Oppenheim (1994), Likert scales are less laborious and most popular. Oppenheim in this handbook suggests it is best to avoid many neutral points or many extreme items at either end of the continuum. It has been suggested that in a five point Likert scale, it does not matter whether one designs higher scores to mean favourable attitude towards the variable or unfavourable attitude, provided one is consistent (Bryman and Bell, 2011). In this research the use of higher score to denote favourable attitude was adopted.

5.7.1 Order and presentation of Questionnaire

The structure of the questionnaire was also established by the framework of OLI with O variables being presented first, then L variables and I, in that order. As a result the questionnaire was presented in four parts. The first three parts focused on the OLI variables and the fourth part collected general information about the companies. The first part focused on the Ownership Advantage variables. As there were many alterations of this variable and suggestions have been made in the literature about simplifying this component of the paradigm (Eden and Dai, 2010; Narula, 2010), one of the objectives of this research was to confirm which of the items were relatively important to the UK investor in Ghana. The objective was not to establish the distance between one variable and the other in terms of confirming

by how much important a variable is over another (Oppenheim, 1994). It was to assess their relative importance in the companies' success or otherwise in Ghana. Therefore the ranking method was used, and chapter 6 presents the findings. The O items ranked were the company's unique product or service for the market, the relative brand strength, the relative size of the company, management expertise, marketing know-how, research and Development resources, experience of operating on similar markets, financial or natural resources of the company and their human resources.

It was noted that ranking many items may be problematic, however, it was established from the pilot study that ranking less than ten items is practicable. This is not too far from the usual recommendations (see Saunders *et al.*, 2009; Cooper and Schindler, 2008). Essentially, ranking this number of variables is practicable once respondents can see or remember the items to be ranked, though it is advisable to keep the list as short as possible. Paper based and web-based questionnaire therefore makes remembering the order of the items possible.

The second part of the questionnaire collected data on the locational variables and FDI motives using the five point Likert scales. First, companies were asked to rate key infrastructure variables on a scale of 1 to 5, where 5 is the most important as stated above. These variables included transport infrastructure, reliable power supply, strong stock market and provision of stable currency.

Second, companies were asked to rank the four main motives of FDI in Ghana namely, market-seeking, resource-seeking, efficiency-seeking and strategic asset-seeking. This was based on the feedback from the pilot study that some companies may have multiple motives of investing in Ghana. In fact Bitzenis *et al.*, (2007) in reference to Dunning (1993) state that most MNCs involved in FDI combine the characteristics of the FDI motives above. Ranking the motives therefore enabled the respondents to reveal their dominant motive as well as the other motives they might have. To be consistent with the scoring above, 4 represented the most important score and 1 was the least important (Oppenheim, 1994).

Third, to establish the extent to which market size was significant to the companies, respondents were asked to rate the following on a scale of 1 to 5: The purchasing power of the people of Ghana, economic stability, improving standard of living, potential to access other African markets from Ghana.

Fourth, the companies were asked to rate how important some key political factors were to their investment in Ghana. Those were democracy and freedom of speech, political stability, company's ability to operate with less political interference, rule of law, the government's regulatory framework to support FDI, control of corruption and government incentives for companies.

Fifth, to confirm the extent to which formal institutional factors contribute in promoting FDI in Ghana, companies were asked to rate the following: the support of GIPC, bilateral relationship between UK and Ghana. In addition, companies were asked to rate the extent to which they believed better promotion in the UK of Ghana's investment opportunities would improve the inflow of FDI.

Sixth, the effects of informal ties on UK FDI was also measured by asking companies the extent to which they believed the colonial past would make the people of Ghana have favourable attitude towards products of UK companies or the products of their competitors from other countries.

Finally for the effect of agglomeration, companies were asked to confirm whether they agree to the pull effect of the following: the presence of other reputable companies in Ghana, presence of other companies from the UK, the presence of companies who have assets to augment their assets, and the presence of companies who could serve as customers or suppliers for the surveyed companies.

The third part of the questionnaire focused on the extent to which the internalisation decision was influenced by the need to control costs. To test this companies were asked to rate the following on a five point Likert scale:

The cost of coordinating investment with the parent company in the UK, costs to the company if they did not have control over their products, services or brands by the use of alternative entry modes; the need to reduce transportation and communication costs, availability of low cost labour and raw materials, availability of low cost land. Besides, companies were asked if they chose to internalise simply because there were no suitable companies to offer their goods or services.

Part four of the questionnaire focused on the collection of general information as well as the entry modes preferred by the surveyed companies.

First, to confirm whether the respondents were in managerial position and therefore had access to the objectives and strategies of the companies, they were asked to state their job titles. Second, to have an idea of the size of the surveyed companies, they were asked to state the number of employees they have in Ghana and their average turnover for the past three years (see Cheng, 2008). Following Acquah (2009), companies were only given a range rather than asking for specific turnover because it is difficult to ask companies for accurate information about their performance in Ghana. Furthermore, a question was asked about how many years of experience the companies had in Ghana to capture an idea of the trend of FDI flow. That is, to establish how many UK companies have located in the country in the last few decades. Besides, a question was asked about the industry sectors in which the surveyed companies operate. This was to confirm the proportion of the companies operating in the service industry, manufacturing industry or both. Furthermore, the companies were asked to confirm exactly what product or service categories they operated in.

Essentially the companies were asked to specify the modes of entry used in operating in Ghana. This offers an idea of the companies preferred entry modes as well as confirm whether companies with different entry modes view the variables under investigation differently. As this research collected qualitative as well as quantitative data, provision was made for companies to leave any open-ended, comments about FDI in Ghana.

Finally, as incentives, and as an initial stage of fulfilling one of the objectives of this research which is to make the findings available to companies, respondents were asked to leave their contact details if they needed a summary of the findings.

5.7.2. Pilot Study

The questionnaire went through a number of iterations before the final version was administered. It was sent to a professor outside the University who also has expertise in the areas of FDI and international business in general. Following the comments received, an updated version was also sent to another expert for comments. After this version was updated, the questionnaire was then sent to four companies. One notable comment received from the companies at this stage was the length of the questionnaire. Another was on the list of items on a particular ranking question. A couple of companies also suggested that the FDI motives should be ranked to enable them to pick which ones were dominant. It was also suggested that the questionnaire should be administered in Ghana where the subsidiaries were located rather than targeting the headquarters due to size of some of companies and staff capacity to make time to complete the questionnaire. These comments were considered and the corrections were made as appropriate. The companies who offered to answer an updated version of the questionnaire were sent the questionnaire again for comments. Finally they accepted that the questionnaire was practicable, taking between ten and fifteen minutes to complete. This version was then sent to the Edinburgh Napier Business School's Research Integrity Committee who also made further comments and approved the research before the final version of the questionnaire was transferred to SurveyMoneky and word processed and printed for distribution.

5.7.3. Sample Frame

Selecting the appropriate sample frame for a survey can be problematic, and care must be taken to ensure that the sample is representative of the population, taking into consideration the various characteristics of the population under investigation and the purpose of the study. Different types of sampling methods have been discussed in the literature, detailing when it is appropriate to adopt what, including probability and non-probability methods (Bryman and Bell, 2011; Creswell, 2009; Saunders, *et al*, 2009; Teddlie and Yu, 2007). However, the sample for this current research is essentially a census, as all the 286 UK companies in Ghana were contacted, therefore sampling error was eliminated (Mullen, *et al.*, 2009).

5.8. Collection of Survey Data

This questionnaire targeted all UK companies with FDI in Ghana. Multiple methods of data collection were used in order to improve the response rate. Bryman and Bell (2011) explain that combination of two methods such as web-based survey and paper-based survey could be done, but there is an ethical question to be answered regarding whether the use of a particular type affects the type of responses given. However, as the questions were mainly rating and ranking based, there was no obvious and justifiable reason for the responses to change. Besides, the respondents were assured of their anonymity and neither their names nor the company's names were included, giving the respondents the incentives to provide as accurate and reliable responses as possible.

Majority of the questionnaires were collected through the drop and pick up method. According to Boateng (2004), this eliminates the unreliability of the postal system typical of sub-Saharan country, such as Ghana. This offered the chance of explaining the purpose of the research and alleviating any concerns potential respondents had. For example, the field note recorded a respondent's concern about the possible implications on his job security. In addition, web-based copy of exactly the same questions was offered to respondents who preferred the

convenience and flexibility web-based survey provides (Bryman and Bell, 2011; Fan and Yan, 2010; Saunders, *et al*, 2009). Also, some of the questionnaires were returned by email. There were 286 companies involved, and majority were located in Accra, the capital city of Ghana, making this method practicable. The location of UK companies is similar to how companies from other countries are located in Ghana, as seen from table 2.2. Besides, the respondents were provided with an incentive of being sent a summary of the research findings if they chose to, regardless of the methods they preferred in participating in the study. It is believed that incentives contribute in improving the response rate (Fan and Yan, 2010).

5.9. Design and Collection of the Qualitative Data

Three main types of qualitative data were used in this research. The first were comments which were collected from the survey, as the questionnaire offered respondents the choice to make any additional comments. It was decided not to analyse these comments in SPSS. These were carefully analysed and incorporated into the discussion chapter (Chapter 7). The second type of qualitative data was in a form of a case study. To obtain comments on initial ideas for this research, a case study was written and presented as a competitive conference paper. This was presented at the Academy of Marketing Conference hosted by the University of Liverpool in 2011 (Osei, 2011, see Appendix L). Similar to the above, the case study was also integrated into Chapter 7 in support or as an exception to the survey findings, as the case may be. The third method was the use of interviews. In accordance with the explanatory mixed design above, the qualitative data as stated above were included for three main reasons – for identification of any important issues which the quantitative research may have missed, to provide rich and practical explanation of the findings of the quantitative research, and lastly to capture the perspective of government agencies in Ghana on what they consider important in attracting FDI. Semi-structured interviews were conducted. In accordance with Bryman and Bell (2011), a list of questions (interview guide) was produced for the UK companies and another for the government agencies. The interview guides are presented in Appendix K.

In the interview process, the question guide was followed chronologically but as permissible in semi-structured interviews, some questions which were not on the interview guide were asked based on the responses of the interviewees in order to probe some of the issues further and also for clarification. To provide an incentive for the interviewees in sustaining their interest in the interview, participants were not discouraged from discussing issues of interest to them even when they were not directly related to the current research. Specifically the first question asked respondents to provide information about their company, when and how it started and what products or services they provide. The second question, rather openly asked why the company invests in Ghana. The purpose of this question is to tease out any important variables which were not included in the collection of the quantitative data as well as establish if any of the reasons explain the findings of the quantitative analysis. One of the objectives of this research was to uncover how to retain UK companies which were already in the country in order to use them as the base to attract more companies (Lamin and Livanis, 2013; Tan and Meyer, 2011). The companies were therefore asked to confirm what important reasons could stop them from operating in the country. Governments are seen as the drivers of FDI attraction because they make the policy changes and implement openness of the economy for foreign participation (Acquaah, 2009; Asiedu, 2006; 2004). Therefore, companies were asked to confirm what they thought the government of Ghana could do to make them more profitable in Ghana and to retain them.

From the quantitative analysis, it was realised that formal bilateral relationship between Ghana and the UK was not important in UK companies' involvement in Ghana. Gov.UK (2013), as seen in Chapter 2 also stated how they assist in promoting trade between the two countries. A question was therefore asked whether specifically the UK government could do anything to assist UK companies in Ghana in order to make them profitable and to retain them in country. Assistance from a home country government for investment in a host country is not unusual as examples exist about the assistance provided by the Chinese Government, for example, in this regard (Buckley, *et al.*, 2008; Mawdsley, 2008).

To obtain more responses about the locational determinants of UK FDI in Ghana in general rather than specifically about the companies interviewed, interviewees were asked whether they would recommend an investment in Ghana to other companies, and to explain why they would or would not recommend an investment in Ghana to other companies. Furthermore, GIPC is the Ghana Government agency responsible for attraction and retention of FDI in Ghana. It was important to test the level of awareness companies have of this agency and their strategies. Without specifically mentioning the name of the GIPC, the companies were asked if they could name any government agencies responsible for investment attraction and promotion, and if they were aware of any strategies being used for investment attraction and retention. Companies were also asked about their experiences of operating in similar markets prior to their investment in Ghana, and to confirm if this experience contributed in any way towards their success in Ghana. Finally respondents were asked if they had any additional information to ensure that all useful information was captured.

The interviewees from GIPC and the Ministry of Trade and Industry were asked a slightly modified version of the question for companies. The interview guide was first emailed to the interviewees, as they requested to see the questions in order to determine whether or not to participate in the study. First, interviewees were asked for general information about their ministry or agency including when it started, how it started, and what services they offer foreign companies. To obtain their perspective on what they believe were the main determinants of FDI, they were asked to state the main reasons why they thought Ghana had attracted FDI. Furthermore, they were asked about what strategies they use in attracting FDI in general. Besides, they were asked about what strategies they adopt in attracting FDI from the UK in particular. Following the suggestion that efforts to attract FDI should involve targeting the desired investment (Barthel, *et al.*, 2011; Musila and Sigure, 2006), the interviewees were asked whether their investment promotion strategies involve targeting specific companies, companies from specific countries, or companies operating in specific industries. They were also asked if there were any identifiable sectors they believed could benefit from investment from the UK.

To capture the role of formal institutions from the perspective of the government agencies, they were asked about the role the Ghanaian Embassy in the UK plays in attracting FDI from the UK. In order not to miss out on any relevant information, interviewees were asked if they had any information to add regarding Ghana's position to attract FDI from the UK and the role the Ministry and the GIPC play.

In total eight interviews were conducted, because in explanatory research design, unequal priority is given to the quantitative data (Harrison and Reilly, 2011; Teddlie and Tashakkori, 2009) and respondents were purposively selected (Saunders, *et al.*, 2009) to ensure that all the industry sectors as well as the government agencies were included in the study. The eight interviews were made up of six from companies (both service and manufacturing) and one each from the Ministry of Trade and Industry and GIPC. Seven of the interviews were transcribed verbatim by the interviewer and corrections were made later, taking into consideration the context of the interviews aided by field notes. However the interview from the Ministry of Trade and Industry was not allowed to be recorded. However, notes were taken and the interviewee later sent additional information via email. In ensuring that the interviewees agreed that the word processed document was an accurate record the interview, interviewees were offered the chance to read the transcript of the interview. Saunders *et al.*, (2009), advise researchers to exercise caution in doing so because some interviewees may attempt to update the document through correction of grammar and use of language. Though the updated transcript would have been compared with the original transcript to ensure the thrust of the original interview was maintained, the interviewees declined to read the transcript, therefore the corrected version of the interviews were maintained. Below are the methods adopted for the analysis of both the quantitative and qualitative data.

5.10. Data Analysis

As suggested above, the explanatory design was used to explain the study finding during the interpretation stage in the discussion section. Harrison and Reilly (2011) reviewed 34 pieces of research in Marketing conducted using mixed designs. They noted that about 79 per cent of the research adopted the sequential approach (Cronholm and Hjalmarsson, 2011). The sequential method enables the researcher to complete the collection of one type of data (quantitative, for example), and then follow it up with a collection of the next type (qualitative for example), to explain the findings from the quantitative research. The opposite approach can also be adopted where the qualitative data collection begins the study to inform what questions should be asked in the quantitative data collection process. The explanatory mixed research approach adopted in this current research is in accordance with the former because more emphasis is placed on the quantitative data. In fact Harrison and Reilly's review above stated that majority of the mixed research design in Marketing also adopted this approach (63 per cent) with Bahl and Milne (2006) alluding to the idea that this trend is because most of the articles in marketing literature which use explanatory mixed methods have positivist background.

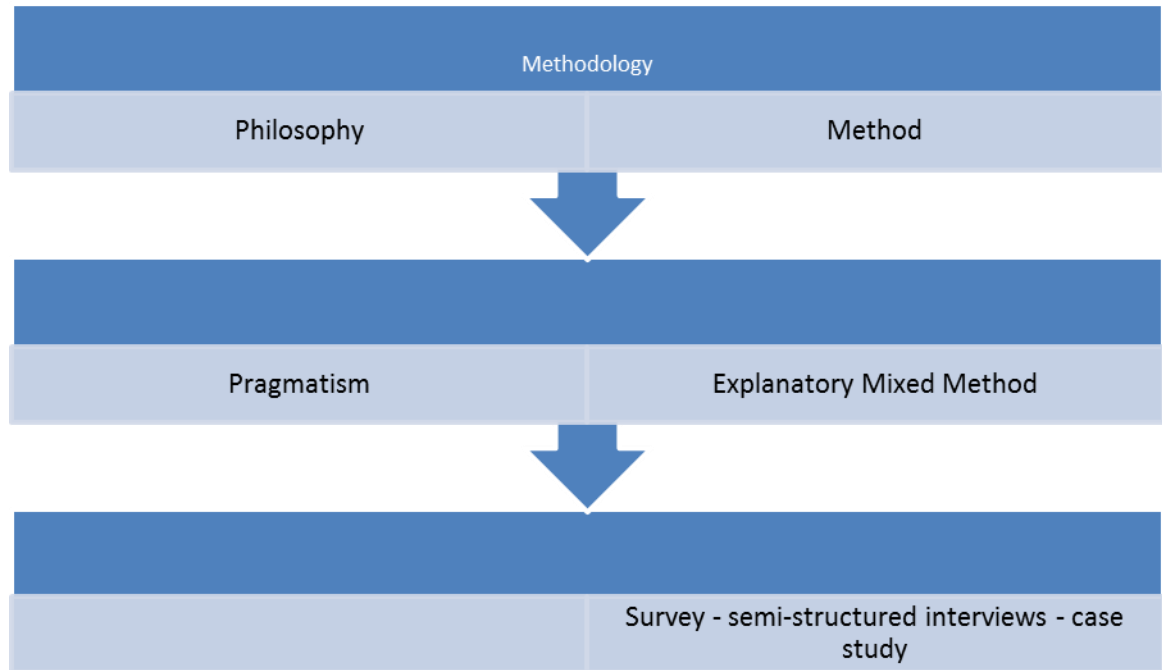
By way of summarising the research approach identified above, quantitative data were collected during the first phase via web-based and paper-based survey and analysed by the use of SPSS. Chapter 6 presents detailed analysis of the quantitative data. Mullen *et al.*, (2009) are of the view that when the sample is in fact a census as it is the case for this research, then frequencies may be the more appropriate analysis rather than the use of inferential statistics. However, this research uses frequencies as they have recommended, but it goes further to use other statistical methods for purposes of measuring relationships among the variables under investigation, and for the purposes of establishing more robustness of the research findings.

The second phase of the research focused on the collection and analysis of

qualitative data through interviews, a case study and comments from the survey to provide more insight and elaboration on the quantitative data collected during the first phase (Creswell, 2009; Teddlie, and Tashakkori, 2009). The qualitative data were analysed manually by categorising all responses according to the questions asked (Bryman and Bell, 2011) and the hypotheses. The interviews were numbered from Respondent 1 to Respondent 8 in order to identify the sources of the responses. The comments generated from the questionnaire were also numbered from Comment 1 to Comment 24. It must be clarified that not all comments were integrated into the discussion chapter as it was impossible to understand some of them because they were too brief and lacked context. An example was Comment 20, which was simply “bureaucracy”. It was impossible to establish what role bureaucracy plays in contributing to the objectives of this research.

The relevant parts of the qualitative data in the form of interviews, comments and case study in support of or in contradiction to the survey findings were quoted and in some cases paraphrased. Chapter 7 presents the data integration in accordance with the explanatory mixed research design (Harrison and Reilly, 2011). Overall, combination of data from multiple sources within reliable typology such as the explanatory design ensures that value (rich qualitative data) is added to the (quantitative) research (Jogulu and Pansiri, 2011; Salehi and Golafshani, 2010; Hurmerinta-Peltomaki and Nummela, 2006). This combination was also possible because the interpretation of the qualitative data was approached from a neopositivist perspective (Qu and Dumay, 2011). This was because the subjects of the qualitative data were viewed as truth tellers (as they were telling the truth from their perspective), making it possible to combine with the compatible truth obtained from the quantitative data. Table 5.3 summarise the research design of approach:

Table 5.3: Research Approach



5.11. Reliability, Validity and Generalisation

Reliability answers the question of whether the result of the research is repeatable, and this is more emphasised in quantitative study (Creswell, 2009; Bryman and Bell, 2007). Bryman and Bell (2011) refer to this realisation of similar results as achievement of stability. Thus, there should be a significant correlation between analysis of data collected during Test 1 (T 1) and Test 2 (T2). For the purposes of this research, reliability answers the question of whether if the above research design and methods of analysis were employed, the research outcome would be the same or similar (McDaniel, Jnr. and Gates, 2007). That is, it concerns whether the same factors would be identified as the determinants of UK FDI in Ghana, if the methodology was repeated at later date. To be able to achieve this in the research, the following measure was taken to minimise errors which could influence the results: the scales adopted for the measurement of respondents' evaluation of the variables under investigation were not invented. The five point Likert scale was adopted (Cheng, 2008).

It must be stated that one of the ways to statistically measure reliability is to apply Cronbach alpha test to the individual scales as well as the overall measure (Brace, *et al.*, 2012). With the use of existing scale, Cronbach alpha scores between 0.650 (infrastructure variables) and 0.770 (cost reduction through internalisation), it was accepted that the reliability for this research was acceptable, considering the guideline of 0.60 (Bagozzi and Yi, 1988). Also, Acquah (2005) stated that the difficult nature of the research environment in Ghana makes Cronbach alpha of 0.60 acceptable. It must be stated that a higher Cronbach alpha has been suggested elsewhere (Bryman and Bell, 2011), but apart from the above guideline, it has been suggested that one should also consider the correlation among the variables as contributing to the acceptance of reliability of quantitative research (Brace, *et al.*, 2012), and this requirement was also met, making the reliability test robust. The test of reliability regarding the qualitative component of the research refers to the consistency of research approach across different researchers and research projects (Creswell, 2009). He continues by giving guidelines in reference to Yin (2003), and one of these was adopted in this research, as only one was applicable. The guideline was that the transcript should be checked to make sure all errors were corrected.

Measurement of validity deals with whether the issues the research intended to measure were successfully measured (McDaniel and Gates, 2007). It concerns the extent to which one can make useful and meaningful conclusion from the data collected (Creswell, 2009). In conducting this research, at the stage of designing the questionnaire, careful and constant reflection was done to ensure that each question contributed to revealing the issues under investigation. Guided by the main research questions and objectives, efforts were made to ensure that all the questions asked were appropriate. Furthermore, the questionnaire only targeted respondents in managerial positions who were expected to be familiar with the strategies and objectives of the companies they represented. Also, following up quantitative method with qualitative method of enquiry added value, thereby minimising possible errors, as qualitative research can provide detailed and

convergent perspective on the issues under investigation. Lobe and Vehover (2009), for example, believe that combining different measurement techniques improves the validity of the research findings. This research did not emphasise sampling validity because attempts were made to contact all UK companies with FDI in Ghana; therefore there was no need to discuss sampling methods or types and sampling errors (see information Bryman and Bell; 2011; Saunders, *et al.*, 2009; Bryman and Bell 2007; Hair Jr, *et al.*, 2007; McDaniel and Gates; 2007; Teddlie and Yu, 2007 for further information). Finally before the questionnaires were finally administered, pilot studies were done with 4 companies and all errors were corrected. The revised questionnaire was then delivered to the rest of the population.

Generalisation: The purpose of the research was not to prescribe a limited set of determinants influencing investment decisions in Ghana. However, the findings could be generalised as representing the views of UK investors in Ghana. As Easterby-Smith *et al.*, (2008) stated, to be able to generalise, sample must be taken from a sufficient size of the population. In this research, the entire population was targeted, and therefore the findings were representative of the population. For this reason, the findings could be generalised for UK investors in Ghana, until there are significant changes in what UK investors perceive to be significant variables. It must be emphasised that studies targeting an entire population in a location is not new (see Pinho, 2007).

5.12. Ethical Considerations

Research ethics has been described as the appropriateness of the researcher's behaviour in relation to those who participate in the study or are affected by the research (Saunders, *et al.*, 2009). It could be described as a code of conduct that ensures that the subjects of the research's human rights are held in very high esteem and also the research presentation does not jeopardise the lives of individuals or organisations. According to Qu and Dumay (2011), dilemmas occur

in research when there is lack of awareness and proper procedures for mutual understanding and trust. Therefore to establish integrity and trust, the entire research was conducted in accordance with Edinburgh Napier University's (2010) code of practice on Research and Knowledge Transfer Ethics and Governance which also follows the policy of the Economic and Social Research Council. Below is the University's code of Conduct applied in this research:

- Research should be designed, reviewed and undertaken to ensure integrity and quality.
- Research staff and subjects must be fully informed.
- The confidentiality of information supplied by research subjects and the anonymity of respondents must be respected.
- Research participants must participate in a voluntary way, free from any coercion.
- No harm should come to research participants – including the researchers.
- The research must be independent of commercial bias.

Similar general ethical guidelines have been provided in many research methods textbooks (Bryman and Bell, 2011: 128; Creswell, 2009: 87; Saunders, *et al.*, 2009: 185). Essentially, this current research followed the above guidelines in ensuring that quality and reliable data was obtained, analysed, discussed and presented in a manner that acknowledged all sources used and also protected participants and their organisations. For example, the questionnaire was approved by the Edinburgh Napier Business School's Research Integrity Committee before it was administered. Also, respondents had the choice of indicating they did not want their responses to be included in the study, and they could opt out at any time. The interviewees' consent was also sought on all occasions before the interviews were recorded. On one occasion when a respondent did not want the interview to be voice-recorded, this was respected and only notes were taken. Similarly, respondents of the survey were also kept anonymous. This was additionally important because some respondents in Ghana had expressed that they had witnessed dismissal of colleagues from employment for taking part in a research. Therefore ensuring proper protection of the data and guaranteeing confidentiality not only contributes in respondents providing reliable responses, but also it is in

respect of human rights (Qu and Dumay, 2011).

5.13. Reflection on the Data Collection Experience in Ghana

Access to data was a major issue in Ghana. Even obtaining the names of companies operating in Ghana was seen as a request for confidential information, as investment promotion agencies were required to protect their clients' confidentiality. While it might assure businesses that the protection of their interests is held in high regard in Ghana, it makes carrying out academic research extremely difficult in the country.

One researcher who has published extensively and whose papers have been used as the foundation for many research projects in Africa confirmed to me that the difficulty in having access to firm level data is one of the reasons why the researcher focuses on econometric analysis and time series data. While time series data may be one of the solutions, using survey method and interviews as this research has done, provides a balanced academic literature on the subject of FDI in Ghana.

Another major challenge was the state of infrastructure in Ghana, and I could relate to some of the comments the respondents made. Making appointments with companies was a nightmare because it was extremely difficult to estimate when one would get to a company from another. The varied nature of industries the targeted companies operate in also meant that some companies' premises were not easily accessible by car. Due to this infrastructure problem, the cost of data collection was very high and it took a lot of effort from me, my supervisory team and friends in Ghana to locate credible research assistants to drop off and pick up the paper questionnaires.

Regarding access to companies in Ghana, though it is not unusual for some companies to refuse answering questionnaires, sometimes getting access to the appropriate person to confirm whether or not they would participate in the study

was a difficulty, even when appointments had been made. There was also a level of fear among some members of staff about the possibility of losing their jobs by either completing the questionnaire themselves or by forwarding them to the appropriate member of staff.

The above is not to discourage researchers from conducting research in Ghana but to provide a reflection of the current situation in the country as far as collecting data from foreign companies is concerned.

In spite of the above challenges, the satisfaction derived from conducting research in an area that is under-research, using different research methods was enormous. In overcoming the above challenges, I have had to rely heavily on my supervisors, academics both in the UK and abroad and a strong network of friends for various kinds of support.

5.14. Summary

This chapter presented the different sources and types of data. It also discussed the various philosophical considerations underpinning research in general and justified why pragmatism was adopted. Consistent with this paradigm, the major typologies of mixed research design were presented in order to justify the choice of the explanatory design. It also revealed how the data was collected, analysed and presented in order to ensure validity and reliability. Furthermore the issue of possible generalizability of the findings were discussed. Finally, a reflection on the data collection experience in Ghana was provided. The next chapter presents descriptive and multivariate analysis of the data.

CHAPTER 6: ANALYSIS AND FINDINGS

6.1. INTRODUCTION

The previous chapter presented the philosophical and theoretical justifications for the methods of data collection, and how the various ethical and fieldwork hurdles were overcome. This chapter focuses on analysing the responses of the questionnaire designed in chapter 5. It aims to accept or reject the hypotheses proposed in Chapter 4 and provide reasons behind the acceptance or rejection of each hypothesis. It is presented in two sections. The first section reveals the characteristics and the description of the data. It also provides the statistical basis in support or rejection of some hypotheses. The second part presents detailed and multivariate analyses to test the level of significance of the variables under consideration, not only on how they affect FDI in general, but also the FDI type. These analyses include Correlation and T-tests.

6.2. DESCRIPTION OF DATA

Descriptive statistics have been adopted in order to examine the characteristics of the data. It is a technique used to describe and summarise data and other forms of information to enhance understanding (Salkind, 2011; Iacobucci and Churchill, 2010; Adams, *et al.*, 2007; Churchill, 1995; Kazmier and Pohl, 1987). The mean and median will be used to measure the central tendency (values that are common among the variables under consideration), and standard deviation for the degree of dispersion (the extent to which the data values differ from the mean).

The paper questionnaires were sent to Ghana based on the responses from the pilot study. For example, a company revealed that due to job cuts, they did not have the capacity to spend some time to answer the questionnaire. Another company also felt as the questions were specifically about their investment in Ghana, their subsidiaries in Ghana rather than the headquarters would be the best people to complete the questionnaire.

Conducting the research in Ghana also had its difficulties because some companies were reluctant to answer online questionnaire because of being unsure of what other data would be stored apart from the responses to the questionnaire itself. Therefore though the survey started with the online questionnaire as a result of the benefits of it as presented in chapter 5, a paper questionnaire had to be accommodated as a result of the concerns of some respondents despite the provision of the privacy statement which is known to alleviate privacy concerns (Wiley, *et al.*, 2009).

The data was obtained from 101 out of 286 UK companies who had registered businesses in Ghana as of April 2013 when the final data collection was undertaken. According to Oppenheim (1994) 100 respondents are sufficient for most purposes. Also, Boateng and Glaister (2003) and Boateng (2004) were based on 41 usable responses from Ghana. It must be emphasised that a similar number of respondents have been used in business and management research in Ghana. An example is Acquah and Appiah-Nkrumah (2011) who used 106 companies in investigating the relationship between managerial experience and social capital performance. The list of companies was obtained from a combination of sources such as the Ghana Investment Promotion Centre (GIPC), Who Owns Whom and Fame Database. All the companies were contacted with the questionnaire and 108 responses were returned, representing 38 per cent response rate. This response rate is consistent with other international business research, according to Bartels, *et al.*, (2013) who examined the location specific factors relevant to FDI attraction in Sub-Sahara Africa, using the eclectic (OLI) paradigm. However, the usable response rate was 35 per cent, as seven responses were not usable because sufficient questions were not answered. This usable response rate is acceptable as there have been similar studies with lower response rate. For example Chung (2010) had 31 per cent response rate in conducting a research on international marketing decision governance.

The description of the data was done in accordance with how the variables have been presented in the questionnaire, which was also designed in accordance with

the OLI paradigm adopted as the framework for the research. The choice of this framework has been justified in the previous chapters.

6.2.1 Characteristics of Responses

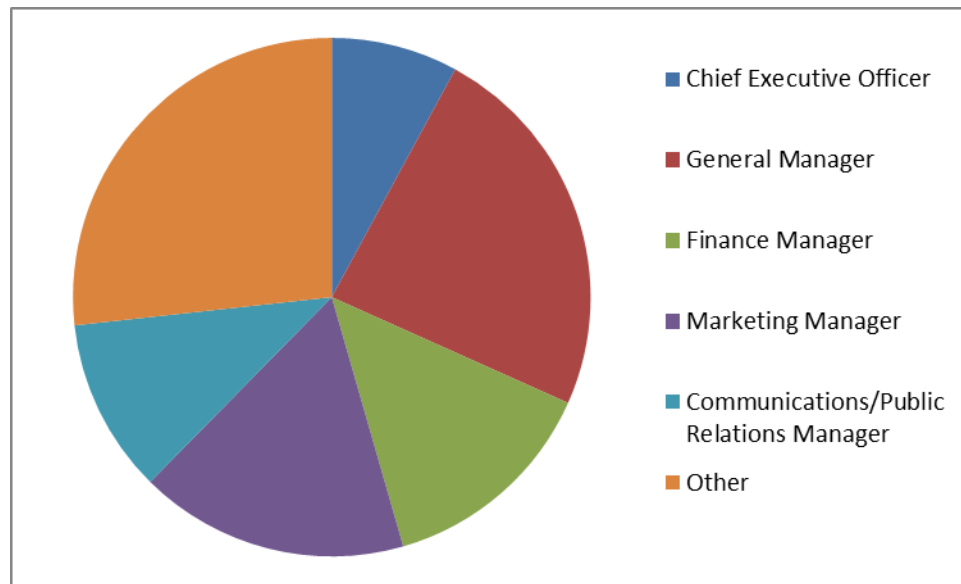
In order to ensure internal reliability; that is, the extent to which different respondents provide consistent responses (Bartels, *et al.*, 2013), respondents were asked to state their job title. This made it possible to exclude respondents who were not senior executives. This was taken as additional measure to pre-questionnaire telephone calls for named respondents, to ensure that the data collected was reliable. Below are the titles of the executives who completed the questionnaire:

Job Title	Frequency	Per cent
Chief Executive Officer	8	7.8
General Manager	24	23.8
Finance Manager	14	13.9
Marketing Manager	17	16.8
Communications/Public Relations Manager	11	10.9
*Other	27	26.7

Table 6.1: Job titles of respondents

*Respondents who selected ‘other’ were given the opportunity to state the exact job title in order to determine if they were eligible to complete the questionnaire. The job titles stated under ‘other’ were Country Director, Corporate Director, Chief Operating Officer, Director, Commercial Director, Human Resource Manager, Project Officer, Operations Manager, Research Manager, Financial Analyst, Head of Retail, Head of Sales and Media Executive. The pie chart (figure 6.1) provides additional illustration of the job titles of the respondents.

Figure 6.1: Job titles of respondents



As the above pie chart shows, the respondents were from a wide range, making it possible to view the responses from various perspectives. It must be stated that similar profile of respondents were targeted in a somewhat related studies in Ghana (Acquaah, 2009). General Managers made up most of the respondents, followed by Marketing Managers and Public Relations Managers or Communications Managers. This trend is not surprising, because pre-notification calls were made to each of the companies for a named individual who the questionnaire should be sent to. This is believed to improve, not only the response rate, but also the completion rate very significantly (Wiley, *et al.*, 2009). In most cases, it was felt the Manager of the establishment in Ghana would be in the best position to complete the questionnaire. In other cases, the call was forwarded to the Marketing Manager or the Public Relations Manger because the receptionists felt it was about market research. Once they agreed to answer the questionnaire following an explanation of the purpose of the research and the type of questions that would be asked, they were forwarded the questionnaire. Generally the validity of the research (Bryman and Bell, 2011) has been enhanced by ensuring that respondents were in managerial position and had access to the motives and the strategic objectives of their companies in Ghana. Tuomi (2011) for example in conducting a research on the role of investment climate and tax incentives on FDI

in sub-Saharan Africa, targeted the General Managers and Chief Executive Officer (CEO), but had to accept the responses of operation managers or financial managers for two reasons. First, they also had access to the required information, and second, it was not always possible to successfully arrange appointment with the CEO or the General Manager. The profile of the respondents is acceptable for the purpose of this research.

6.2.2. Turnover of the Companies

The companies were asked to state their turnover in Ghana for the past three years (Chen, 2008). Refer to the table below for the break-down of the responses:

Turnover	Frequency	*Per cent
Above £500 million	7	9.2
Between £100 million and £499 million	10	13.2
Between £50 million and £99 million	14	18.4
Between £1 million and £49 million	31	40.8
Under £1 million	14	18.4
No response	25	

Table 6.2: Turnover of companies

*Represents percentage of responses for that particular question rather than of the sample.

About a quarter of the respondents did not reveal their turnover, and it was not possible to obtain this in any other way, as only companies listed on the Ghana Stock Exchange are required by law to publish their annual reports. A look on the Ghana Stock Exchange will confirm that most of the UK companies are not listed on it. This also echoes Acquaaah's observation that it is very difficult to obtain objective measure of performance from companies operating in Ghana (Acquaaah, 2009). Section 7.2.3 reveals why the Ghana Stock Exchange is not one of the strongest in sub-Saharan Africa, and this may be one of the reasons why most of the surveyed companies were not listed on it.

From the above table, the dominant group of companies have annual turnover of less than £49 million, representing 59.2 per cent of all companies that answered the question on turnover. This may be a significant indication of what UK companies are relatively easily attracted to Ghana. It could be assumed that efforts to attract companies with the potential to achieve over £50 million turnover, has not been as successful as it could have been, but this assumption must be taken with caution and it is a pointer that further research is required.

6.2.3. Years of Experience in Ghana

The respondents were asked to confirm the number of years their company has been in operation in Ghana, and below were their responses:

Years of Operation	Frequency	Per cent
More than 50 years	8	8.3
Between 20 and 49	11	11.5
Between 10 and 19	28	29.2
Between 5 and 9 years	22	22.9
Between 2 and 9 years	22	22.5
Less than 2 years	5	5.2
No response	5	

Table 6.3: Years of companies' operation in Ghana

Five of the respondents refused to answer the above question. The above table offers an indication of the flow of UK FDI to Ghana based on the responses. It can be seen that the peak of the flow was between 1994 and 2003. This is significant and supports the literature to some extent on the effect of investment promotion agencies on FDI (Lim, 2008) because Ghana Investment Promotion Centre was established by GIPC Act 478 in 1994 to attract and promote FDI (Abor, *et al.*, 2008; Mmieh and Owusu-Frimpong, 2004). However, as can be seen below, UK FDI to Ghana has been decreasing very significantly over the last 10 years, though GIPC continues to implement policies to promote FDI to Ghana. Table 6.14 specifically

presents the role of GIPC in attracting UK FDI.

6.2.4. Number of Employees

Much has been written on the effect of FDI on job creation in host economies (Ferretti and Parmentola, 2010; Tanna, 2009; Vu and Noy, 2009). The companies were asked to state the number of fulltime-equivalent of employees they have to give an indication of the size of the companies surveyed. Refer to the table below for the break-down of the responses:

Number of Employees	Frequency	Per cent
Over 500	16	16.7
Between 250 and 499	7	7.3
Between 100 and 249	13	13.5
Between 50 and 99	21	21.9
Under 50	39	40.6
No response	5	

Table 6.4: Number of full-time employees

According to an IMF (2007), companies employing between 2 and 49 can be considered as small; those with between 50 and 249 are medium and those with over 250 are large companies. However, with reference to how company size may be classified in Ghana, Soderbom and Teal (2004) categorise companies in Ghana into four, namely micro companies if they have less than 6 employees, small companies if they employ between 6 and 30 people, medium companies if they have between 31 and 99 employees and large if they have over 100 members of staff. Van Biesebeck (2005) uses a similar measure in classifying companies from nine Sub-Saharan countries including Ghana, Ethiopia, Cameroon, Kenya and Tanzania. As this research is specifically about Ghana, Soderbom and Teal's classification above has been adopted.

From the table above, overwhelming majority of the companies (62.5 per cent) are small to medium size. This is an indication of the group of companies that may be attracted to Ghana, and also group of companies Ghana has not been so

successful in attracting, and may need different approach in targeting those companies. It would have been interesting to investigate whether the size of companies has any significant role in variables that are consider as relevant in the attraction and retention of companies in Ghana. However this is outside the remit of this research. The section 6.2.9 below on ownership advantages examines further how significant company size contributes as a determinant of FDI.

6.2.5. Industry Sectors

The companies were asked to confirm whether they operate in the service sector, manufacturing sector or both manufacturing and service in Ghana.

Industry	Frequency	Per cent
Service	73	78.5
Manufacturing	12	12.9
Both	8	8.6
No response	8	

Table 6.5: Industries the companies operate in

The above confirms that the dominant sector UK companies invest in is service. This is not surprising because in the UK (home country), manufacturing only represented 11 per cent of the economy and employed only 8 per cent of the population, making the service sector very dominant as it is the case for UK companies in Ghana (BIS Economics Paper 10A, 2010). In 2013, it was reported that the contribution of the service sector to the UK economic output reached 79 per cent against the manufacturing sector which has been decreasing over the years (Maer and Rhodes, 2013). Also, Riedl (2010), for example, states that FDI has shifted towards the service sector and calls for re-evaluation of the determinants as a result of this change. Riedl continues that government incentives are more likely to increase the flow of FDI in the service sector, compared with the manufacturing sector, which generally involve more costs. However the above is still an indication that much needs to be done in attracting foreign companies into the manufacturing sector in Ghana. This is consistent with Darley (2012) who

confirmed that Africa’s manufacturing only forms about one-third of 1 per cent, and continues that the figures for sub-Saharan Africa, which includes Ghana is even worse.

6.2.6. Product Categories

The companies were also asked to confirm the exact product or service they offer based on the main sector categories provided by the GIPC. It is acknowledged that some companies operate in more than one industry but for practical reasons, only products or services indicated as the dominant sectors were counted. Below were their responses:

Product or Service Sector	Frequency	Per cent
Financial Services	17	16.8
Agriculture and agro-processing	9	8.9
Information/Communication Technology	8	7.9
Petroleum and gas	8	7.9
Consultancy/Training	7	6.9
General Retail	7	6.9
Tourism and hospitality	7	6.9
Energy	6	5.9
Construction /engineering	4	4
Education	4	4
Equipment	4	4
Infrastructure	4	4
Textile and Garments	4	4
Healthcare	1	1
Other	11	10.9
Total	101	100

Table 6.6: Product category

It can be concluded from the above that no single product category completely dominates UK FDI in Ghana. Relatively, the financial services is the most important category. According to GIPC, financial services providers emanate from a wide range of organisations (see GIPC Sector Profile publication 2012 edition on financial services). These include organisations providing banking and finance as well as non-bank and financial services, forex bureaux, insurance companies and

those operating in financial and capital markets. The government has projected the financial sector as one of the key areas of the country that needs further investment. Apart from presenting the recent oil find as an excellent opportunity for companies in the financial services sector to develop products to support the oil industry, the Ghana Government has also highlighted investment opportunities for the following groups of companies:

universal banks, development banks, insurance companies, reinsurance companies, mortgage finance organisations, leasing companies, venture capital companies, hire purchase companies, export finance companies, investment banks, mutual funds, investment trusts, savings and loans companies and specialised finance houses. With the above numerous opportunities highlighted, it is not surprising that more companies are exploiting the opportunities in this sector.

The next sector the surveyed companies operate in is the agriculture and agriculture-based manufacturing. One of the companies interviewed stated the following in acknowledging the potential in agriculture in Ghana and urging the government to support investment in agriculture and related industries:

“...it’s no brainer in Ghana, as agriculture, development of farm land, animals, produce – anything grows here. It doesn’t matter what you take as a seed. Just stick it in the ground and it will grow; whether it is lettuce, tomato, cucumbers. You can bring anything here and it will grow like wild fire”

The above, coupled with the fact that over 57 per cent of Ghana’s land area is suitable for agriculture purposes according to GIPC, it is surprising that not more companies have taken advantage of this opportunity. This may be a pointer for the government to do more in investment promotion. It may also be that Ghana mainly source their investment in agriculture from within the country, considering a significant proportion of the population still heavily relies on agriculture, or because they source investment in this sector from other countries rather than the UK.

Information technology and petroleum and gas are the next important sectors with the same number of companies. It must be emphasised that the companies operating in oil and gas only deal in the retail and distribution rather than exploration. General retail, tourism and hospitality and consultancy and training

were the next important sectors, as they all had seven companies. Companies in the energy sector had six companies, and there were four or less companies operating in the remaining sectors as seen from the above table. The scattered nature of the product sectors among the companies as seen above does not justify the need for GIPC for example to focus promotional activities on any particular sector. In fact, it was confirmed in an interview with an executive at the Ministry of Trade and Industry in Ghana in April, 2013 that it is difficult to establish which particular sector the UK is renowned for; therefore their investment promotion in UK tends to be generic. This response was given after the executive was asked about whether their marketing strategies target specific industries, companies and countries.

6.2.7. Choice of Entry Mode

Companies considering entry into a new market have to make a crucial decision about choice of entry mode, which also determines the degree of control. Buckley, *et al.*, (2007), for example, allude that companies use internalisation as the default entry strategy until the cost of internalisation becomes higher than the benefits. It was therefore essential to establish the extent to which UK companies take advantage of the wholly owned option offered in Ghana. Wholly owned subsidiary refers to when the UK company owns over 90 per cent of the established entity in Ghana. If the UK company owns between 10 per cent and 90 per cent of the established entity, it is considered as a joint venture (Demirbag, *et al.*, 2010b). The companies were therefore asked to confirm which entry mode they used in entering the country. Some companies entered Ghana through more than one mode; hence the total number does not add up to 101, which is the number of companies that submitted usable responses. Indeed some companies indicated the use of additional modes such as franchising, contract manufacturing and exporting but these are outside the scope of this research. Table 6.7 present the details of the responses in relation to FDI:

Entry Mode	Frequency	Percentage
Wholly Owned Subsidiary	76	74.5
Joint Venture	24	23.5
Stand-alone (not a subsidiary)	2	2

Table 6.7: Entry strategies

The above confirms that contrary to what has been stated elsewhere that the government of Ghana has made a number of changes in the investment legislation over the last few decades in favour of joint venture over any other entry modes (Acquaah, 2009; Boateng and Glaister, 2003), wholly owned subsidiary remains the overwhelming preference. The legislation to enable companies to wholly own their business establishment in Ghana therefore appeals to the UK investor and should be continued in order to make the country more attractive. It is interesting to note that not all FDI companies in Ghana are joint ventures or wholly owned subsidiaries. Two UK nationals were known to have established wholly owned companies which did not have headquarters in the UK or any other country. In effect, Ghana has the potential to attract companies as well as individuals to establish long term, high involving ventures in the country.

The section 6.2.11 on the Internalisation investigates further role of entry mode choice in increasing FDI component by virtue of the need to control costs.

6.2.8. Characteristics of the Variables According to OLI

As indicated in chapters 3 and 4, the OLI paradigm has been adopted as the framework to analyse the determinants of UK FDI in Ghana. However, the significance of the OLI variables depends on the moderating effects of FDI motives, which were identified as resource-seeking, efficiency-seeking, market-seeking and strategic asset-seeking (Lim, 2008; Asiedu, 2002). Before the OLI variables are described, below are the details of the motives of UK FDI in Ghana. It was anticipated that the FDI could involve all four motives, as this research focused on all industry sectors, with the exception of companies operating in the exploration of the main natural resources such as gold, manganese, bauxite,

diamond, oil and gas. Therefore the respondents were asked to rank their motives in order of importance and the table below confirms the results:

	Market-Seeking	Resource-Seeking	Strategic Asset-Seeking	Efficiency-Seeking
Mean	3.5	2.5	2.4	2.4
Median	4	2	2.5	2
Standard deviation	0.8	1.2	1.2	0.9

Table 6.8: FDI motives

From the above, most of the UK FDI to Ghana is market-seeking motivated, as evident in the highest mean and median values. This is consistent with the finding above that UK FDI in Ghana is dominated by service. Relatively, service is offered where it is needed, unlike physical products which can be manufactured, stored and transported to different locations. For example, Standard Chartered Bank and Barclays Bank had to locate in Ghana in order to provide the variety of services they offer the Ghanaian market.

The next important motive is resource-seeking. This is surprising because though this research excluded companies directly involved in the traditional natural resources such as gold, diamond, bauxite, manganese, oil and gas, seeking other resources in Ghana is still a strong motive. These resources may include raw materials such as agricultural and forest products. An example is Blue Skies Holdings Limited (Appendix L), which is involved in the processing of fresh fruits for both the domestic and the European markets. Efficiency-seeking and strategic-seeking are still important motives, having mean and median values above 2 out of 4. Below is an examination of the OLI variables the above motives may moderate:

6.2.9. Ownership Advantages - O Leg of the OLI framework

One of the main criticisms of the OLI is the view that it is a shopping list of variables (Bitzenis, *et al.*, 2009; Dunning, 2001). Eden and Dai (2010), also

questions the modifications and the list of the O element of the triad. It is therefore essential that an attempt is made to establish which of the elements of the O component are important as far as UK companies in Ghana are concerned. The companies were therefore asked to score the O variables below out of 9 (because nine variables were identified) to establish their relative significance. They were asked to not to put any value against the variable if they did not find the variable to be of any significance. Below are the mean scores in order of importance:

O Variable	Mean	Frequency
Unique Product	6.8	89
Brand Strength	6.7	94
Management Expertise	6.5	90
Experience in Similar markets	5.9	95
Marketing Know-how	5.6	83
Human Resource of company	5.6	93
Financial/natural resources	5	84
Firm Size	4.9	81
R&D Resources	4	93

Table 6.9: Ownership advantages

It can be seen from the above that the mean values are slightly higher than expected because of the fact that not all nine variables were ranked by the respondents, as they did not find some of them important. As the highest ranking respondents could give was 9, and the lowest they could give was 1, it can be assumed that if the average rating is above 4.5 (half), then the variable in question is deemed significant. From the above, Research and Development Resource was the only variable which scored below half of the maximum. All the other variables were found to contribute significantly in the companies' involvement in Ghana. It is also interesting to examine the frequency scores, confirming the number of companies out of 101 who rated each variable. It could also be said that none of the nine variables overwhelmingly stands out as the most important variable though statistically it can be said that having a unique product or service for the Ghanaian market appears to be the most important factor, followed by the strength of the brand and the management expertise to manage the product and brand in the market. However, it may also be argued that more companies rated brand

strength and management expertise, compared to unique product, if one uses the count method. It is therefore justifiable to combine all these variables as ownership advantage or competitive advantage (Eden and Dai, 2010; Dunning, 1998).

6.2.10. Locational Factors – L Leg of the OLI framework

This segment of the framework looks at country specific variables that companies with the ownership advantage above may be pulled to Ghana to exploit for the benefit of their stakeholders. For the definition of each variable, refer to Chapter 4. Below is the analysis of the data collected in relation to the locational variables:

6.2.10.1. Agglomeration – Pull Factor

Companies were asked to confirm whether their involvement in Ghana was motivated by the presence of other companies in Ghana as suggested by the proponents of the agglomeration concept (Lamin and Livanis, 2013; Tan and Meyer, 2011; Procher, 2011; Bronzini, 2007). This is as a result of the perceived economies emanating from localisation (cluster of companies supplying similar goods and services) and urbanisation (cluster of companies providing different goods and services). Table 6.10 confirms the results from respondents regarding why they located in Ghana, in relation to the pull effect of other companies:

	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 6.10: Significance of agglomeration

From the above, it is evident that majority of the companies accept that the presence of other companies in Ghana contributed in their decision to invest in Ghana. However, the last two statements also confirm that UK companies were not drawn to Ghana because of the presence of other UK companies 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 operate in partnership with. Section 6.3 confirms the extent to which ownership advantage (O variable) is moderated by the agglomeration factor. Significant relationship between the O variable and the agglomeration effect could mean that the Ghana government would have to target groups of companies rather than companies in isolation, for example, in their marketing strategy. If companies already have 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. For example, it may be useful when targeting an oil company, to also target another company that could construct the pipes or maintain their equipment rather than targeting the oil company in isolation. The infrastructure variable below was the next to be analysed.

6.2.10.2. Infrastructure – L Variable

Companies were asked to confirm the extent to which infrastructure would encourage them to continue to investment in Ghana, using the five- point Likert Scales. This question is important because it does not only focus on attracting new companies but also to keep those who are already in the country. Four variables very considered under infrastructure namely physical infrastructure such as roads, railways, airports, ports and harbours; strong stock market; stable local currency against major currencies and reliable energy. The table below confirms their relative importance:

	Mean	Median	Standard Deviation
Reliable Energy	4.2	4	0.9
Transport Infrastructure	3.9	4	1.1
Stable Local Currency	3.4	4	1.1
Strong Stock Market	3.2	3	1.2

Table 6.11: Significance of infrastructure

From the above, reliable energy is the most important infrastructural variable that would encourage UK companies to invest in Ghana, considering the mean values. Both the mean and the median values suggest that the availability of strong stock market does not have any significance to the UK investor in Ghana. That may explain why many companies have not listed on the Ghana Stock Exchange, for example. Though the mean values do not overwhelmingly support availability of good transport infrastructure and stable local currency as essential to the UK investor, the median suggests they are important, with the value of 4 out of 5. Below is the analysis of the third locational variable, market size.

6.2.10.3 Market Size – L Variable

Companies were asked to confirm the extent to which some variables which determine the current as well as potential market size of Ghana would affect their continuous involvement in the country. Below are the details reflecting how respondents rated the questions on a five-point Likert Scales:

	Mean	Median	Standard Deviation
Potential for Economic Stability	4	4	0.9
Access to other African Markets	3.8	4	1.1
Improving Standards of Living	3.6	4	1
Purchasing Power	3.2	3	1.1

Table 6.12: Effect of market size/market potential

The above shows that economic stability is the most significant variable, as both the mean and the median were scored 4 out of five. Contrasting this with the purchasing power in Ghana (mean of 3.2 and median of 3), it could be said that UK companies are more interested in the economic potential, rather than what consumers can buy now. It is therefore essential that investment promoters collect data on trends in areas such as the purchasing power, living standards and economic growth. GIPC has been stressing that Ghana is a hub to access other African countries, and from the above, some investors appear to acknowledge this, as this is the second most important market-seeking variable, with median score of 4 out of five and mean of 3.8. The improving living standards are expected to affect purchasing decisions, as people consume products and services to reflect their improved social status, especially the emerging middle class (Bloomberg 2011). It is not surprising that this variable is found to be significant. The analysis below focuses on the fourth locational variable – political factors.

6.2.10.4 Political Factors – L Variable

Using the five point Likert Scale, companies were asked to evaluate the significance of some political variables in their continuous investment in Ghana. The political factors were represented by key governance indicators, as seen in Chapter 4. The following is a summary of the responses received:

	Mean	Median	Standard Deviation
Less Political Interference	4.3	4	0.8
Political Stability and Continuity	4.2	4	0.8
Regulatory Framework to Promote FDI in Ghana	4	4	0.8
Evidence of Rule of Law	3.8	4	1
Democracy and Freedom of Speech	3.7	4	1.1
Control of Corruption	3.6	4	1.1
Incentives to foreign Investors	3.5	4	1.1

Table 6.13: Effect of political factors

Though the effect of political factors on FDI is described as inconclusive (see Chapter 4), the strong median value here confirms that these are very significant determinants in UK companies' continuous investment and attraction to Ghana. UK companies' ability to work without serious political interferences is the strongest political variable, with mean value of 4.3 out of 5 and a strong median. This is closely followed by political stability and continuity. Companies appear to be looking for stable government, and in the case of change in government, they appear to be looking for smooth transition, so that the investment climate, political and economic conditions started could be continued regardless of which political party is in power. Ghana appears to be one of the few countries in Africa that an incumbent government has been replaced by a new party successfully through democratic elections (Bloomberg, 2011). Also, through GIPC, the government has provided a regulatory framework to promote investment in Ghana, and this has also been supported by the companies.

Three more political factors have a strong median value of 4, which make those factors strong, but their mean values are not as high but slightly above the point of

being neutral. These factors are important but not crucial compared to the first three variables. These variables are evidence of rule of law in Ghana, democracy and freedom of speech in the country, government efforts to control corruption in Ghana, and investment incentives provided by the government to foreign companies. Below is the analysis of the fifth and last locational variable – institutions.

6.2.10.5. Institutions – L Variable

As defined in Chapter 4, two main types of sub-variables come together to form the institutional variable – formal and informal ties between Ghana and the UK. Companies were asked to indicate how these contribute in making Ghana an attractive or unattractive investment destination. Formal institutions by the government are to market and promote FDI. GIPC, for example, has thriving marketing department responsible for marketing the country as an attractive investment destination.

The table below reveals details of the responses to both informal ties and formal institution variables:

	Mean	Median	Standard Deviation
Effects of Marketing*	4.1	4	0.9
Effect of GIPC on FDI (formal)	2.9	3	1.1
Effect of bilateral relations (formal)	2.8	3	1.1
Effect of colonial past on preference for non-UK goods (informal)	3	3	1.3
Effect of colonial past on preference for UK goods (informal)	3.5	4	1.2

Table 6.14: Effect of informal ties and formal institution factors

From the table above, it can be noted that the first variable, effects of marketing, is not an institutional variable. It was included to confirm if companies believe the government could do better to market the country to UK investors, and if they do, what the probable outcome would be. From the above, both the median and the

mean values confirm that more UK companies would invest in Ghana if investment opportunities are marketed better to the UK investor. This is significant because a t- test was run to confirm if there was any significant difference between job titles in their respond to the question regarding whether more companies would locate in Ghana if opportunities are better. The Marketing Manager was taken as the proxy for respondents' attitude towards marketing, as of the other job titles, that was the most related. The t-test results reveal no difference between Marketing Managers and the rest of the respondents, as the table below demonstrates. It therefore confirms the belief that marketing has a positive effect cuts across types of respondents.

Job title	2-tailed significance
Chief Executive	0.087
General Manager	0.286
Finance Manager	0.891
Communications/public relations Manager	0.680

Table 6.15: Difference in attitudes towards effect of marketing on FDI

It would be valuable to investigate the strategies to market Ghana better, but this is outside the remit of this research. From the above, neither formal institutions nor the informal ties have significant effect on the FDI.

In sum, different location variables have different effects on the surveyed companies. Below is an analysis of the internalisation (I) variable, which is the final component of the eclectic paradigm (Dunning and Lundan, 2008a).

6.2.11. Internalisation for cost reduction (I Leg of the OLI framework)

This variable and its various components have been defined in Chapter 4. On a five-point Likert scale, companies were asked to rate why they decided to internalise rather than use the services of other companies in relation to costs resulting from liabilities of foreignness and market imperfections, which may disadvantage the companies if they did not have control over their presence in

Ghana. Table 6.16 presents the details in order of importance:

	Mean	Median	Standard Deviation
Cost associated with control of brand, service, products	3.6	4	1
Reducing cost of coordination with parent companies	3.4	4	1.3
Access to low cost input, e.g. labour, raw materials	3.3	3	1.2
Lack of suitable companies to offer products or service in Ghana	3.1	3	1.2
Reduction of transport and communication costs	3	3	1.2
Low cost land	3	3	1.2

Table 6.16: Effect of cost considerations

From the above, it is apparent that the need to internalise in order to reduce cost is not a significant factor in locating FDI in Ghana. Though internalisation has taken place with the use of FDI as evident in wholly owned subsidiary being the preferred entry mode, it can be concluded that this cannot be strongly attributed to the transaction cost argument but rather through strong ownership advantages and favourable locational factors. However, with median of 4 and mean above 3 (neutral point), it may be argued that the need to control brands, service and products, and the need to manage cost associated with coordinating investment between the parent company and the subsidiary in Ghana remain important internalisation determinants.

In sum, the above analysis, through the use of descriptive statistics, has revealed the characteristics of the responses from UK companies involved in foreign direct investment activities in Ghana. Section 6.3 below focuses on multivariate analysis through correlation, t-test and a more detailed consideration of central tendency (considered briefly above), in order to establish which of the hypothesis should be accepted and which should be rejected, as far as the average UK FDI in Ghana is concerned.

6.3. TESTING OF HYPOTHESES

6.3.1. INTRODUCTION

While the above section focused on analysing the responses from the questionnaire, this section concentrates on grouping the responses in accordance with the framework. Below is the framework again to facilitate understanding of the relationships the hypotheses sought to establish:

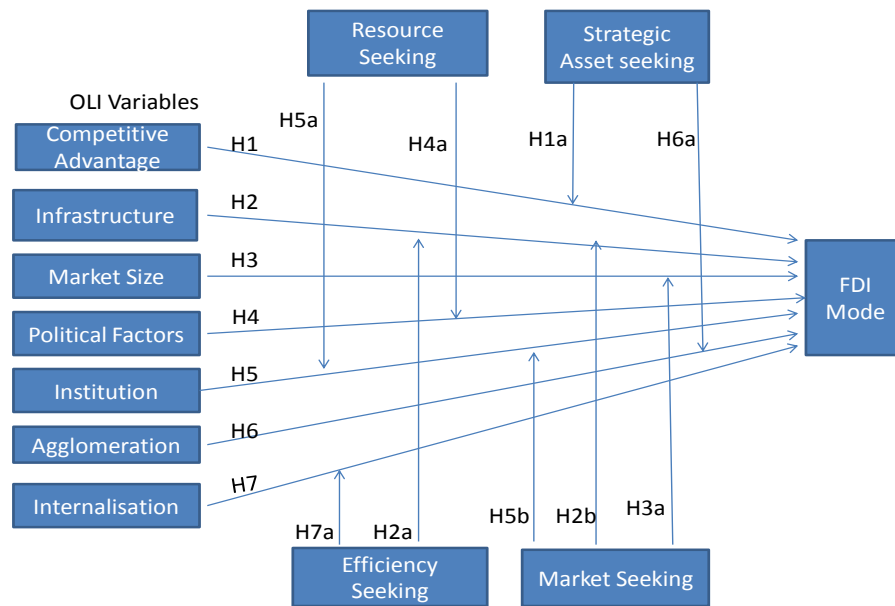


Figure 6.2: UK FDI in Ghana according to OLI paradigm, moderated by FDI motives

The framework was created based on expectations from the documented status quo. This section of the analysis will juxtapose the empirical results from the survey of UK companies in Ghana against the status quo. This will make it possible to either accept that the status quo is also true as far as UK FDI is concerned or if the widely held beliefs need to be considered differently.

6.3.2. H1: Ownership Advantages relate positively with UK FDI in Ghana in the form of wholly owned subsidiaries

As has been seen above, respondents were asked to leave any O variable blank if

it was not at all important. Thus, the fact that none of the variables was left blank confirms each one of the variables is important to some of the companies surveyed, therefore it is established that ownership advantage relate positively with UK FDI. Questions may be asked about the extent to which the above hypothesis is true. The histograms below offer an idea of the proportion of companies who scored the variable the highest and the lowest values available (Saunders, *et al.*, 2009). Due to space, only the histograms of the top three variables which all have mean scores above 6, namely unique product, brand strength and management expertise have been provided here. Appendix B presents the histograms of all nine variables.

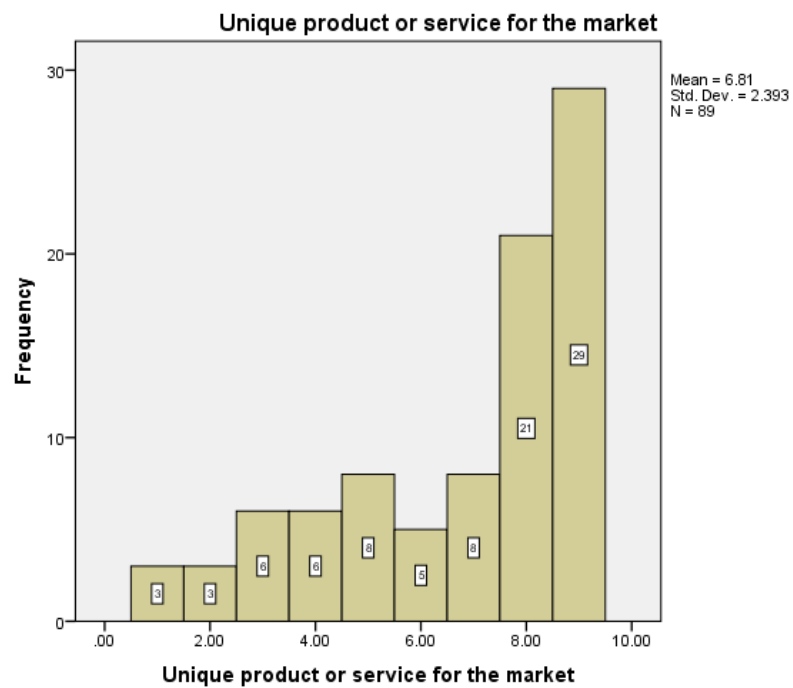


Figure 6.3

From the above, the overwhelming majority of respondents saw unique product or service as essential ownership advantage to be successful in Ghana, with over 79.8 per cent scoring the variable 5 or above.

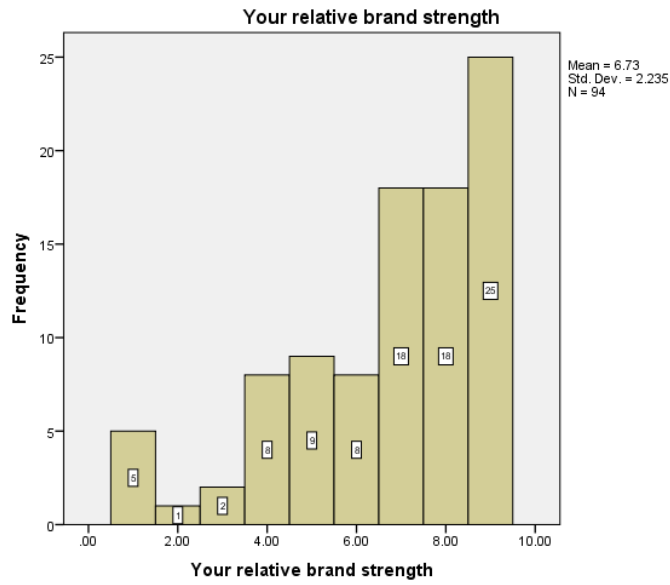


Figure 6.4

Regarding the relative brand strength variable, 83 per cent of respondents who found this variable important scored it 5 or above.

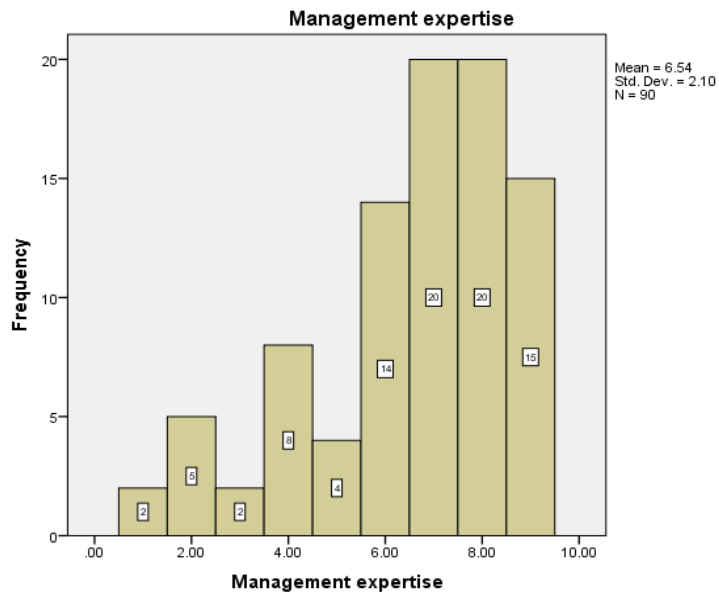


Figure 6.5

From the above, 81 per cent of the surveyed companies who found management

expertise important scored this variable 5 or above. It is essential that the companies have the expertise to continue to provide value for stakeholders.

The above overwhelmingly establishes how essential ownership advantages are to UK companies FDI in Ghana in general. The question still remains how it relates to type of FDI – whether there are any significant differences in responses according to type of FDI. To operationalise the analysis and to obtain one significance level for the relationship between the above ownership advantages and type of FDI, all the nine ownership advantages have been combined through computation in SPSS (Bryman and Bell, 2011). T-test was then run with the result against the UK companies mode of entry. Their modes of entry were labeled as wholly owned (which is the thrust of the above hypothesis), and “Other”, to signify any other cooperative entry strategy chosen. The choice of T-test is appropriate because it enables one to confirm if the means of two groups are equal in relation to a depended variable (Saunders, *et al.*, 2009; Huizingh, 2007). Appendix C presents the details of the T-test results. With the p-value of 0.031, there is a significant difference between wholly owned subsidiary and the other entry modes in their relationship with ownership advantages. Based on the T-test value, the descriptive statistics (see table 6.9), and the fact that majority of the surveyed companies prefer wholly owned subsidiary (see table 6.7) the hypothesis has therefore been accepted.

In sum, the hypothesis that ownership advantage relate positively with UK FDI in Ghana in the form of ownership advantages is accepted. It can therefore be said, by extension, that a decrease in the competitive advantage of the companies could affect their continues investment in Ghana because this could mean that companies alter their preferred strategy by considering cooperative strategies. Considering less and less companies have been registering new businesses in Ghana (see table 6.3), it is essential that those already in the market survive the competition, and to do this, they need to be seen as of better quality and better brand than those from competing countries such as China, India and Lebanon.

The next hypothesis considers the relationship between ownership advantage,

which has been overwhelmingly established as crucial in Ghana, with FDI motives through the use of correlation.

H1a: Opportunities for UK companies to acquire strategic assets in Ghana correlates positively with FDI.

It is important to confirm if the strategic asset-seeking motive is significant in Ghana. Companies were asked if they located in Ghana because they identified companies already established in the country that had assets to support what they had. In total 61 respondents (60 per cent) agreed and 40 respondent (40 per cent) disagreed. As the support was not overwhelming, an additional test was run to statistically test the relationship between ownership advantages seen above and the need to acquire strategic assets, using Pearson’s correlation method. Below are the results of the test:

O Variable	Mean	Pearson Correlation	Sig. (2 tailed)	Number of respondents
Unique Product	6.8	0.181	0.090	89
Brand Strength	6.7	-0.165	0.113	94
Management Expertise	6.5	0.133	0.212	90
Experience in Similar markets	5.9	0.034	0.746	95
Marketing Know-how	5.6	- 0.084	0.450	83
Human Resource of company	5.6	- 0.014	0.892	93
Financial/natural resources	5	-0.033	0.763	84
Firm Size	4.9	-0.210	0.060	81
R&D Resources	4	-0.014	0.892	93

Table 6.17: Correlation between individual ownership variables and strategic asset-seeking motive

To accept the hypothesis, two conditions have to be met. First, the 2-tailed significance level must be 0.05 or lower. Also, Pearson correlation has to be positive (Bryman and Bell, 2011). The above hypothesis has been rejected because of the following:

First, from the above, though there appears to be correlation between each of the nine ownership variables on one hand and the availability of assets in Ghana to complement the assets of the surveyed companies on the other, the significance level is too low to accept, assuming confidence level of 95 per cent. The p-value for each of the correlations is above 0.05. Second, most of the relationships appear to be negative rather than the hypothesised positive relationship. Apart from running the asset augmenting motive against the individual ownership advantages, correlation was also run against the computed (combined) values for ownership advantages. Consistent with the above, the p-value was 0.366, therefore insignificant. The table below confirms the correlation:

		Ownership Advantage	we identified firms already located in the country that had assets or expertise to complement our own
Ownership Advantage	Pearson Correlation	1	-.114
	Sig. (2-tailed)		.366
	N	65	65
we identified firms already located in the country that had assets or expertise to complement our own	Pearson Correlation	-.114	1
	Sig. (2-tailed)	.366	
	N	65	101

Table 6.18: Correlations between ownership advantages and strategic asset-seeking FDI

As a result of the p-value being above the recommended 0.05, the hypothesis has been rejected. Chapter 7 discusses the implications of this result in detail.

H2. The relatively less developed physical and financial infrastructure in Ghana discourages UK FDI, regardless of FDI mode

The effect of infrastructure on attraction and retention of FDI has been explored in the literature as seen in Chapter 4, and section 6.1 presented the results of the surveyed UK companies in Ghana. To determine whether the above hypothesis should be accepted or rejected, the following question can also be posed: does the relatively less developed physical and financial infrastructure affect the attraction and retention of FDI, and does the effect change significantly if the FDI mode changes? Using the five point Likert scale and assuming the neutral point of 3 (Lillis and Sweeney, 2013; Cheng, 2008), three out of four variables affect FDI, some stronger than others, as the mean and median values in table 6.11 indicate. Of the four variables considered, the presence of stock market appears to be the least important with median of 3 (neutral) and mean of 3.2. Therefore the hypothesis that the relatively less developed physical and financial infrastructure in Ghana deter UK FDI, may be partly accepted and partly rejected because of the mixed effects it has on the companies surveyed.

However in order to determine the overall effect of infrastructure on FDI and whether there is any difference in responses regarding the dominant mode of entry (wholly owned subsidiary) and the other entry modes, the four sub variables were combined through computation in SPSS (Bryman and Bell, 2011). T-test was then run to be consistent with the approach in analysing H1 above. Appendix D presents the T-test results. With the p-value of 0.522, there is no significant difference between how wholly owned companies and companies which adopted other strategies viewed the effects of infrastructure. The above hypothesis has therefore been accepted. Thus, the importance of infrastructure as confirmed by the descriptive statistics applies to wholly owned companies in as much similar way as they affect UK companies using cooperative strategies. Chapter 7 presents detailed explanation of the rather universal perception of the effects of infrastructure on UK FDI in Ghana. The hypotheses below confirm if there is any relationship between infrastructure and the motives of FDI.

H2a: Infrastructure is likely to be a deterrent to efficiency-seeking Companies

To answer this question, Person Correlation was run for the relationship as well as level of significance and the results are contained in Appendix A1. With a p value of 0.023, physical infrastructure such as road, railway, airport, ports and harbours were found to have a significant relationship with companies whose motives are efficiency-seeking. The hypothesis is therefore accepted. There is even a stronger correlation between the volatility of the local currency and efficiency-seeking FDI, with a p value of 0.001. The hypothesis is therefore accepted in relation transport infrastructure and exchange rate volatility. The correlation between efficiency-seeking FDI and reliable energy supply was however not found to be significant, with the p value of 0.654, and this is rather surprising. To obtain a single value for companies' assessment of the effect of infrastructure, the computed value of infrastructure as seen from H2 above was correlated with efficiency-seeking motive and below is the result:

		Infrastructure	To reduce the costs of our production
Infrastructure	Pearson Correlation	1	.384**
	Sig. (2-tailed)		.000
	N	100	83
To reduce the costs of our production	Pearson Correlation	.384**	1
	Sig. (2-tailed)	.000	
	N	83	83

** . Correlation is significant at the 0.01 level (2-tailed).

Table 6.19: Correlations between efficiency-seeking and infrastructure

From the above table the correlation between efficiency-seeking and infrastructure is significant with p-value of 0.00. With this overwhelming evidence, the hypothesis has been accepted. Chapter 7 investigates this further to establish why this might be the case, with the use of other sources of data accessible through the use of the

explanatory mixed research design adopted. H2b below looks at the correlation between infrastructure and a different motive – market-seeking.

H2b: Infrastructure is likely to be a deterrent to market-seeking companies

To test this hypothesis, Pearson Correlation was run (see appendix A1). Though three of the four infrastructure variables were found to relate with FDI in Ghana in general, contrary to the expectation derived from the literature as stated in chapter 4, no significant correlation was found between infrastructure and market-seeking FDI ($P > 0.05$). The p-value for the correlation between market-seeking FDI and physical infrastructure (road, railways, ports, harbours, airports) was 0.462, which is insignificant. Also the correlation between market-seeking and stock market was insignificant with a p-value of 0.755. Besides, the p-value for the relationship between volatility of exchange rate and market-seeking was 0.305, hence insignificant. Lastly, the p-value for the correlation between market-seeking and reliable energy was 0.321, also insignificant. However to obtain a single p-value to represent the degree of significance of the correlation, the responses in relation to market-seeking was run against the computed infrastructure variable as H2 above presents. Below are the correlation results:

		To seek markets for our products	Infrastructure
To seek markets for our products	Pearson Correlation	1	-.023
	Sig. (2-tailed)		.822
	N	96	95
Infrastructure	Pearson Correlation	-.023	1
	Sig. (2-tailed)	.822	
	N	95	100

Table 6.20: Correlation between infrastructure and market-seeking motive

Consistent with the correlation between market-seeking motive and the individual infrastructure variables, the above also confirms insignificant correlation with a p-value of 0.822. Therefore the above hypothesis has been rejected. Thus, though infrastructure is essential, there is no significance in responses between those who indicated their motive to be market-seeking, and those who did not as far as infrastructure is concerned. Chapter 7 discusses the implications of this correlation. Hypothesis 3, (H3) below looks at the second locational variable, market size, and its relationship with UK FDI in Ghana.

H3. Market size has a positive and significant relationship with FDI regardless of FDI Mode

In considering the effect of market size on UK FDI in Ghana, it may also be asked, 'does market size have a positive and significant relationship with FDI in Ghana? From table 6.12, and assuming the score of 3 to be the neutral value of the five point Likert scale (Lillis and Sweeney, 2013; Cheng, 2008), all four variables attract FDI. To test the above hypothesis, T-test was run to establish if there was any significant difference in wholly owned companies' responses to the above effects of market size, in juxtaposition with other modes of entry. Appendix E presents the T-test results. With a p-value of 0.090, there is no significant difference. Thus, the surveyed companies perceive market size as important variable regardless of their mode of entry. The hypothesis is therefore accepted. Chapter 7 presents detailed discussion of the implications of this result. It may logically be assumed that market size is essential for market-seeking companies, as it presents opportunities for them to sell their goods and services. H3a below addresses the relationship between market-seeking motive and market size.

H3a. Market size is significant if FDI motive is market-seeking.

It is legitimate to investigate the relationship between FDI motives and OLI variables because the significance of each variable depends on the type of investment, motives as well as the strategies of the investor (Demirbag *et al.*, 2010; Harvey and Abor, 2009). Pearson correlation was therefore run between market-seeking motive and market size. As can be seen below, though there is a positive correlation between market-seeking motive and market size, the significance level is 0.403 ($p > 0.05$). Therefore the correlation is not significant. This result is unexpected but Chapter 7 discusses why this is the case in Ghana.

		market size	To seek markets for our products	To reduce the costs of our production	To access raw materials	To be close to current and potential partners
market size	Pearson Correlation	1	.088	.175	.136	-.191
	Sig. (2-tailed)		.403	.117	.240	.088
	N	96	92	82	76	81
To seek markets for our products	Pearson Correlation	.088	1	-.135	-.279*	.083
	Sig. (2-tailed)	.403		.228	.014	.464
	N	92	96	81	77	80
To reduce the costs of our production	Pearson Correlation	.175	-.135	1	.157	-.302**
	Sig. (2-tailed)	.117	.228		.178	.008
	N	82	81	83	75	77
To access raw materials	Pearson Correlation	.136	-.279*	.157	1	-.352**
	Sig. (2-tailed)	.240	.014	.178		.002
	N	76	77	75	78	74
To be close to current and potential partners	Pearson Correlation	-.191	.083	-.302**	-.352**	1
	Sig. (2-tailed)	.088	.464	.008	.002	
	N	81	80	77	74	82

*. Correlation is significant at the 0.05 level (2-tailed).
 **. Correlation is significant at the 0.01 level (2-tailed).

Table 6.21: Correlation between market size and the FDI motives

It can also be seen that there was no significant correlation between market size and any of the remaining motives. However further correlation, analysis was run to confirm whether any of the variables which were computed in order to arrive at the market size variable, could in themselves, have a significant correlation with FDI motives. Thus, could market size be important to companies even if their dominant motive was not market-seeking? This additional analysis was run as a result of an interview with one of the UK companies in Ghana in 2010 about their motive in investing in Ghana (Appendix L). It was revealed that though their initial motive was resource-seeking, due to some changes, their subsequent FDI in other countries would have market-seeking and market size undertones, though their motive would continue to be predominantly resource-seeking. This is because their main markets are in UK and other European countries. However, the dominant literature would suggest that if the motive is market-seeking, then the market size should be the preoccupation (Wint and Williams, 2002; Schneider and Frey, 1985; Agarwal, 1980; Root and Ahmed, 1978). Pearson correlation method was used to test if there was any significant relationship between market size and the other motives other than market-seeking (see Appendix A2). There is a significant correlation between the need to be close to current and potential partners (for agglomeration or strategic assets purposes for example) and current purchasing power in Ghana, with a p value of 0.003 ($p < .05$), and also the relationship between resource-seeking motive and standard of living (p value of 0.026). Thus, two of the three motives which were not market-seeking dominated also found market potential and market size variables to be significant. The next hypothesis tests whether political factors contribute in attracting and retaining UK FDI in Ghana.

H4: There is positive association between political factors and UK FDI in Ghana, regardless of FDI mode.

As seen in chapter 4, the view on the effect of political factors on FDI is rather mixed. However, as can be seen from table 6.13, the effect as far as Ghana is concerned is overwhelming. Using Cheng's assumption of 3 as neutral in a five

point Likert scale, it is comprehensive that political factors relate positively with UK FDI to Ghana with both the mean and median scores above 3. However, it is not clear whether wholly owned companies and companies operating with cooperative strategies perceive the political factors differently. To test this hypothesis, T-test analysis was run. Appendix F presents the results. In running this analysis, all the seven different types of political factors identified were combined through computation in SPSS (Bryman and Bell, 2011). With a p-value of 0.086, the hypothesis was accepted. The hypothesis was accepted because the difference of the perception of wholly owned subsidiaries on one hand and companies operating with other modes was not significant enough. Chapter 7 considers the implications of these results. Before then, the hypothesis below tests if companies with different FDI motives have answered the questions in relation to political factors differently.

H4a: The increasingly favourable political factors will have no effect on FDI from the UK if the motive is resource-seeking

It has been established in the literature that political factors are generally insignificant if FDI motive is resource-seeking, as a result of the belief that alternative locations of the resources in question may be limited (Cantwell, *et al.*, 2010, for example). Therefore though the above results overwhelmingly support the view that political factors are significant in the relationship with FDI, it is essential to confirm whether or not it matters when it concerns resource-seeking motive. To do this Pearson correlation was run between all the seven political variables on one hand and the resource-seeking motive on the other. Appendix A3 contains the results. There is no significant relationship between resource-seeking motive and the political factors ($p > .05$). To obtain a single value to represent the degree of significance, further correlation analysis was run between the computed political factors as seen above and the resource-seeking motive, and table 6.22 presents the results.

Correlations			
		To access raw materials	Political
To access raw materials	Pearson Correlation	1	.026
	Sig. (2-tailed)		.832
	N	78	67
Political	Pearson Correlation	.026	1
	Sig. (2-tailed)	.832	
	N	67	86

Table 6.22: Correlation between political factors and resource-seeking motive

The above reveals a p-value of 0.832, confirming insignificant correlation. Therefore the null hypothesis above has been accepted (H0). Chapter 7 discusses the implication of these results. The hypothesis below examines whether tax incentives have any effect on companies who are efficiency-seeking, considering incentives reduce the cost of operation.

H4b: Government incentives correlate positively with efficiency-seeking FDI

As can be seen from the table below, tax incentives correlate positively with efficiency-seeking FDI, but the correlation is not significant, with the p-value of 0.196 ($p > 0.05$).

Correlations			
		To reduce the costs of our production	Government incentives to foreign investors
To reduce the costs of our production	Pearson Correlation	1	.143
	Sig. (2-tailed)		.196
	N	83	83
Government incentives to foreign investors	Pearson Correlation	.143	1
	Sig. (2-tailed)	.196	
	N	83	101

Table 6.23: Correlation between Ghana Government incentives and efficiency-seeking motive

The government of Ghana has been providing investment incentives which could be in the form of tax allowances, duty drawbacks, investment allowances and grants in order to attract FDI (Harvey and Abor, 2009; Abor, *et al.*, 2008), as has been done elsewhere (Adam and Tweneboah, 2009a; Kok and Ersoy, 2009). From the above it can be concluded that though these appear to help investors somewhat, they are not significant. It may be because the tax incentives only form insignificant proportion of the overall cost of operation in the country. The hypothesis has therefore been rejected. Further discussion of the implications of these results is presented in chapter 7. The hypothesis below considers how institutions in Ghana affect UK FDI in Ghana.

H5: The Ghanaian formal institutions have positive effect upon UK FDI regardless of the FDI mode

Formal institution has been defined in Chapter 4, and it has been hypothesised to relate positively with inward FDI. However, from table 6.14, neither of the institutional variables related significantly with FDI in Ghana, using Cheng's assumption that 3 is neutral in a five point Likert scale (Lillis and Sweeney, 2013; Cheng, 2008). This is because both of the formal institutions variables are below 3. In addition, T-test was run to confirm if there was any significant difference in the mean values for the different types of FDI in their relationship with formal institutions. Appendix G contains the results. The p-value was 0.873; therefore insignificant. The hypothesis has been rejected. Thus, the average company surveyed either disagrees or is indifferent in relation to the effect of formal institutions on FDI, regardless of the type of FDI as the means for the wholly owned FDI and all other entry modes were similar. The next hypothesis considers if informal ties and formal institutions relate differently if the motive is resource-seeking.

H5a: Both informal ties and formal institutions do not have any effect on FDI if the motive is resource-seeking – Hypothesis accepted.

From the above results, it may be concluded that regardless of the FDI motives, institutional variables were not crucial to the surveyed UK investors. However, the exact correlation was confirmed using the Pearson correlation. As can be seen from appendix A4, the p-value for the relationship between resource-seeking and GIPC was 0.823 and between resource-seeking and bilateral relationship with UK was 0.188 ($p > 0.05$). The individual institutional variables were computed in order to obtain a single variable for institution. Pearson correlation was then run between the computed institution variable (formal institution and informal ties) on one hand, and resource-seeking on the other. Below are the results:

Correlations			
		formal & Informal Institution	To access raw materials
Informal ties & formal institution	Pearson Correlation	1	-.089
	Sig. (2-tailed)		.456
	N	90	72
To access raw materials	Pearson Correlation	-.089	1
	Sig. (2-tailed)	.456	
	N	72	78

Table 6.24: Correlation between institutions and resource-seeking motive

From the above the p-value for the correlation is 0.456, which is higher than the recommended 0.05 for null hypothesis to be rejected. The hypothesis has been accepted because there is no significant relationship. This is not surprising as it is consistent with the above result which confirms the insignificant relationship between institutions and UK FDI. The hypothesis below seeks to answer this question regarding the relationship between informal ties or institutions and market-seeking FDI.

H5b: Informal ties in Ghana negatively relates with market-seeking UK FDI – hypothesis rejected

To test the above hypothesis, Pearson correlation was run between Informal ties (informal institution) and the market-seeking FDI, and below are the results:

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

The above result was unexpected because of the positive correlation. However, with the p-value of 0.117, the correlation is 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 (see Appendix A4). However, similar to 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 hypothesis above has been rejected ($p > 0.05$). Chapter 7 presents detailed explanation of the implications of this insignificant correlation. Though there appear to be positive correlation, this is not significant, regardless of the FDI motive. Though the hypothesis has been rejected, it must be noted that this responses have been taken from the investor’s 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 hypothesis below looks at the relationship between the last locational variable – agglomeration effect, and FDI.

H6: Agglomeration opportunities provided by both UK and non-UK companies in Ghana relate positively to UK inward FDI in Ghana regardless of the FDI motive

As has been established in Chapter 4, it is believed agglomeration has a significant effect on inflow of FDI due to the benefits it presents to companies. Table 6.10 reveals 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, it may be argued that some of the companies who indicated no agglomeration effect of other UK companies may still be influenced by agglomeration – but not necessarily because the potential partner is from the UK, but because they offer desirable assets. The above hypothesis seeks to confirm if there is any difference between wholly owned subsidiary and other modes of entry in how agglomeration affects inward FDI. T-test was therefore run, and the results are presented in Appendix H. 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. Furthermore since the agglomeration effects emanated from other UK companies was not found to be important, the hypothesis have has been accepted but in a modified form. The new hypothesis should be:

Agglomeration opportunities provided by companies in Ghana relate positively to UK inward FDI regardless of FDI mode.

Thus, agglomeration opportunities offered by companies in Ghana regardless of their home country, correlates positively with UK FDI in general. The hypothesis below is about whether the effects of agglomeration are moderated by the motive of FDI.

H6a: The significance of agglomeration in attracting FDI increases if motive is strategic asset-seeking

As seen above the significance of OLI variables depends on FDI motive (Harvey

and Abor, 2009). Pearson correlation was run to establish the relationship between agglomeration and strategic asset-seeking motive, and below are the results:

Correlations			
		we identified firms already located in the country that had assets or expertise to complement our own	Agglomeration
we identified firms already located in the country that had assets or expertise to complement our own	Pearson Correlation	1	.703**
	Sig. (2-tailed)		.000
	N	101	99
Agglomeration	Pearson Correlation	.703**	1
	Sig. (2-tailed)	.000	
	N	99	99
**. Correlation is significant at the 0.01 level (2-tailed).			

Table 6.26: Correlation between agglomeration and strategic asset-seeking motive

From the above, not only does the result produce positive correlation but also very significant with p-value of 0.000. Further correlation analyses were run in order to determine if the above result has consistency with other results from the data.

From Appendix A5, the correlation between companies whose motive was to be close to current and potential partners on one hand, and the agglomeration effect of other reputable companies in Ghana on the other, is very significant with a p-value of 0.006 (correlation is significant at 0.01). The hypothesis has therefore been accepted. Chapter 7 explores the implications of this result. Before then the next hypothesis introduces the (internalisation) component of the OLI paradigm and relation to costs.

H7: The need for cost reduction through internalisation positively relates with inward FDI regardless of FDI mode – hypothesis accepted

Chapter 4 explored why companies internalised. The internalisation variable has been considered in relation to costs, therefore the above hypothesis was to test the extent to which this is also the case in Ghana. From Table 6.16, it may be stated that the need for cost reduction relates positively with inward FDI, but not in all its components, as some cost items were not found to be important. This hypothesis tests further whether the results in relation to internalisation to control costs differs according to FDI type, since theoretically joint venture, for example, offers relatively less opportunity for control, compared with wholly owned subsidiary (Cavusgil, *et al.*, 2008; Hill, 2007). T-test was therefore run to establish any possible differences, and appendix I presents the results. It could be concluded from the results that there is no significant difference between the FDI modes and the perceptions about internalisation for cost control, as the p-value was 0.994. One possible explanation could be that even where joint venture has been chosen as the mode of entry, the surveyed companies acquire majority stake, offering them degree of involvement and control similar to that of a wholly owned subsidiary. An example is Vodafone's 70 per cent stake in the then Ghana Telecom. Because of their majority stake, they were able to restructure the company and rebrand it as Vodafone Ghana. The hypothesis has therefore been accepted, but Chapter 7 presents detailed discussion of the results.

H7a: Cost reduction through internalisation correlate significantly with efficiency-seeking FDI motive

As seen from chapter 4, the expectation was that there should be a significant relationship between the internalisation variable and motives of FDI, especially in relation to the efficiency-seeking motive. Pearson correlation was therefore run between these variables, and table 6.27 presents the results.

Correlations			
		To reduce the costs of our production	Internalisation
To reduce the costs of our production	Pearson Correlation	1	.476**
	Sig. (2-tailed)		.000
	N	83	78
Internalisation	Pearson Correlation	.476**	1
	Sig. (2-tailed)	.000	
	N	78	94

** . Correlation is significant at the 0.01 level (2-tailed).

Table 6.27: Correlation between internalisation for cost reduction and efficiency-seeking motive

From the above, not only is there a positive correlation between the two variables but also very significant, with a p-value of 0.000.

To investigate this relationship further, the efficiency motive was run against the individual components of internalisation using Pearson correlation (Appendix A6). First, the p-value between efficiency-seeking on one hand, and the cost of coordinating investment with parent company in the UK on the other was 0.005. Also the p value for efficiency motive and international transportation cost was 0.001. Lastly, the p-value between efficiency-seeking and cost of land was also 0.001. Also, the correlation between efficiency-seeking on one hand and inputs such as labour and raw materials on the other was very strong with a p-value of 0.000. Therefore the hypothesis has been accepted. The relationship between efficiency-seeking motive and the protection of brand, products and services was insignificant (p value of 0.218).

Interestingly, other correlations emerged between two other motives and some cost reduction variables. For example, the p value between the resource-seeking motive and access to low cost land was 0.001, therefore significant. Furthermore, there was significant correlation between strategic asset-seeking motive and cost of coordinating investment with parent UK company (p value of 0.005), and also between strategic asset-seeking and access to low cost inputs such as raw

materials and labour (p value of 0.005). These results have been discussed in chapter 7.

The framework below presents the findings of the research by confirming the level of significance among the variables and the relationships they represent:

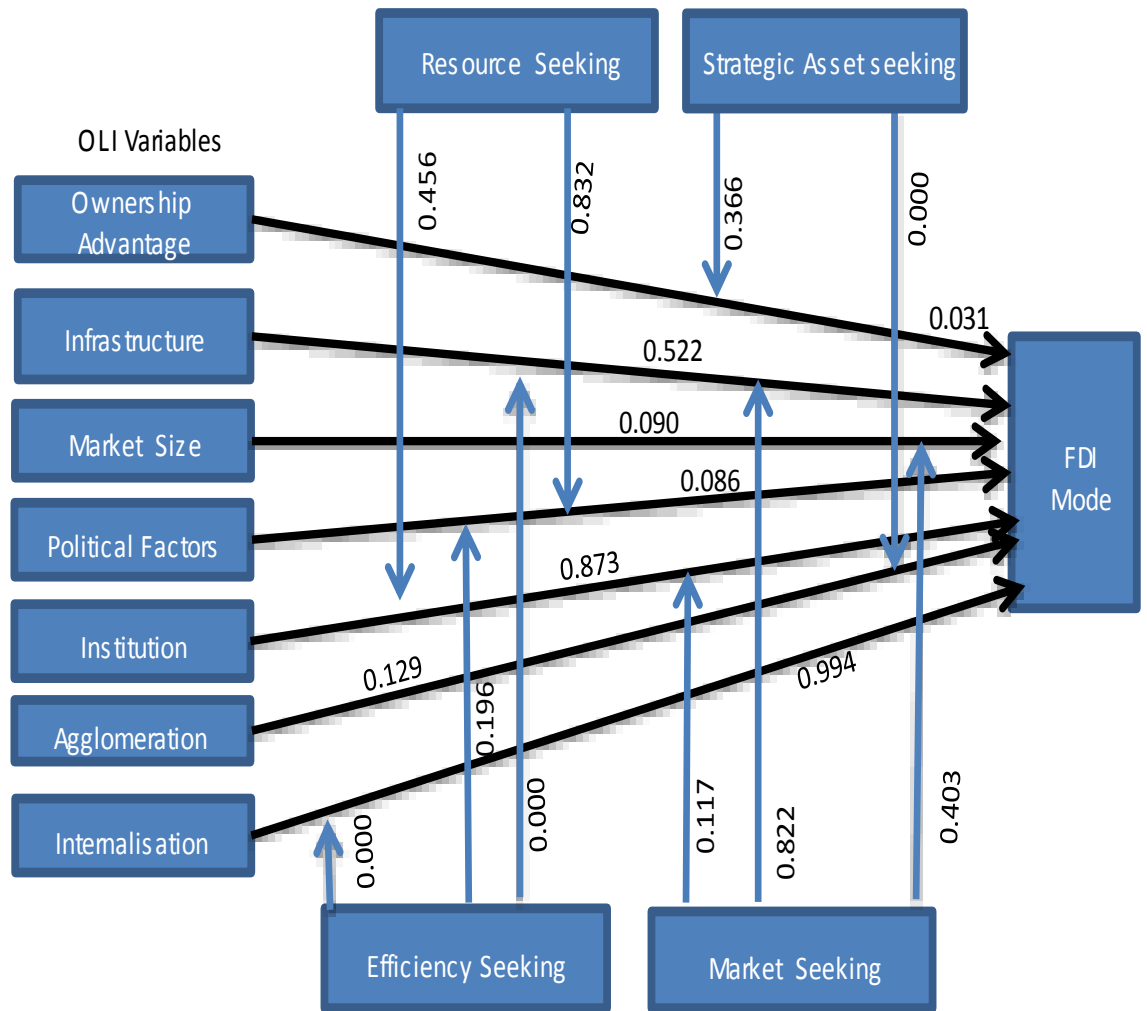


Figure 6.6: UK FDI in Ghana according to OLI paradigm, moderated with FDI Motives

Key:

- The black arrows represent relationships between the OLI variables and FDI mode confirmed with the use of T-test.
- The blue arrows signify the relationship between the OLI variables and FDI motives, tested with Pearson correlation.

6.4. Summary

The above analysis was in two parts. The first part, through the use of descriptive statistics, presented the characteristics of the companies surveyed and their assessment of how the OLI variables impact on their investment in Ghana. The second section focused, in detail, on OLI variables and FDI motives and their relationship with the UK FDI in Ghana. Various statistical methods and assumptions including descriptive statistics, T test and correlation were used to confirm or reject the hypotheses. Other tests such as ANOVA and chi square tests and regressions were considered but were found to be inappropriate due the number and similarity of responses. The next chapter discusses the above results, explaining the rejection and acceptance of the hypotheses. Where possible, the discussion will include information from various sources such as interviews conducted with the view to explain further the finding of the quantitative data in accordance with the explanatory mixed research design (Harrison and Reilly, 2011).

CHAPTER 7: DISCUSSION OF RESULTS

7.1. INTRODUCTION

The above chapter, through the use of quantitative analysis, revealed whether or not the hypotheses should be accepted. This chapter chronologically reviews the hypotheses and discusses the implications on UK FDI in Ghana. The discussion involves the interpretation of the findings with the use of literature as well as the results of semi-structured interviews conducted in April and May 2013. This is in accordance with the explanatory mixed method design adopted for this research.

7.2. Discussion of Results in Relation to OLI

As this research was based on the OLI paradigm, the hypotheses were reviewed in that order, therefore the section below considers the hypotheses in relation to the O component (ownership advantages).

7.2. 1. Ownership Advantages relate positively with UK FDI in Ghana in the form of wholly owned subsidiaries. – hypothesis accepted

The literature revealed overwhelmingly that ownership advantage, also referred to elsewhere as ownership competitive advantage or firm specific advantage, (see Bartels, *et al.*, 2013; Cleeve, 2009; Dunning, 2001; Ueng, *et al.*, 2000; Erramilli *et al.*, 1997), contribute significantly to companies' decision to internationalise through FDI. However it is sometimes believed that it is not always the case that companies must have ownership advantage or indeed locational and internalisation advantage (OLI) as suggested, particularly when it comes to latecomers (Omar, *et al.*, 2009). As the overwhelming literature confirms the importance of OLI, the first question is whether indeed the O element relates positively with UK FDI in Ghana, and if it does, which FDI entry mode is it most associated with? From the T-test analysis, it is evidently clear that there is a

significant difference between wholly owned subsidiary and the other modes in their relationship with ownership advantages, with significance value of 0.031 ($p < 0.05$). It may therefore be argued that the more UK companies have ownership advantages, the more they are likely to use wholly owned subsidiaries. This is consistent with Chiao *et al.*, (2010) who stated that the more firm-specific assets held by a company, the more likely they will enter a country by means of wholly owned subsidiary. Their finding is not in isolation, as similar outcomes have been predicted elsewhere. Cheng (2008) for example hypothesised that the more experience a company has on international markets, the more likely they would prefer wholly owned subsidiary over joint venture. As seen from section 7.2.1.4 below, experience of operating in similar markets was one of the key ownership advantage variables evaluated in this research, and companies overall, found it to be important, as table 6.9 (chapter 6) revealed. Furthermore, Pinho (2007) assert that companies prefer high entry mode if their ownership advantages are transferable to the host market. In this regard the highest entry mode is the wholly owned subsidiary.

Overall, the more companies have the required ownership advantages, the more they are capable of competing and honouring their obligations without assistance from other organisations. Eden and Dai (2010) alluded that the O (ownership advantage) explains **why** companies locate abroad, L (locational advantage) elucidates **where** companies are located and I (internalisation) explains **how** they entered the countries in which they operate. In adding to Eden and Dai above, this research does not only explain why UK companies locate in Ghana, but also why they prefer wholly owned subsidiary. A recent study shows that over the years there has been a shift from the higher number of FDI in Ghana being joint ventures to wholly owned subsidiaries, though it has been suggested that joint ventures could potentially result in more technology spillovers for the country (Osabutey and Debrah, 2012; Mmieh and Owusu-Frimpong, 2004). For the companies surveyed, the overwhelming evidence is that they are attracted to the country because they believe they have appropriate advantages for the market. This is essential in the ever increasing competition in Ghana. For example, China has been the number

one source of FDI in the country, and it is believed that Chinese companies are under increasing pressure to invest in Africa, and are being offered support by the Chinese government. For example, the following is an indication of the pressure on Chinese companies to meet targets in Africa (Mawdsley, 2008: 518).

“Venturing into Africa is a superficially attractive option for Chinese enterprises with limited global experience, as they can avoid the kind of competition and rules they face in markets such as the US or the European Union”.

Chinese companies are also under great pressure to invest in Africa to fulfil political commitments made by China’s leaders, who provide financial incentives, including cheap loans, for them to go overseas. Mawdsley above reveal that Chinese companies must obey what their country instructs them to do and meet ambitious targets of investment overseas or else they would be criticised by the authorities in China.

The above is not surprising because *Erramilli et al.*, (1997) for example, in reference to Dunning (1980), confirm that competitive advantage of companies are related to factors within countries of origin. The above is just an indication of competition from one country, not to mention investors from India, and other African countries such as Nigeria and South Africa, and also from local companies, some of which are state-owned. The following quotation from interview Respondent 3 in Ghana confirms the variety of investment from different countries into different sectors in Ghana:

“...The Lebanese community is a prime example. They have done very well in the servicing of items, food, vehicles, technology to the country, and they’ve been here a long, long time. Indians are coming in. The Chinese have been here, although they are running around the countryside causing a lot of trouble, although they did a lot of work on the roads”.

The above not only confirms the establishment of communities from different countries but also experienced investors who have operated in the country for a long time. They have networks and better understand how businesses operate in Ghana, just as some UK companies have been in the country since the colonial days. In the Banking industry for example in Ghana, Barclays Bank and Standard

Chartered Bank compete with Ghana Commercial Bank owned by the government, and has over 150 branches across the country (Okoe, *et al.*, 2013; Hinson, *et al.*, 2011). In the engineering sector below is a comment submitted with the survey from one of the respondents (Comment 14), confirming how some UK companies may have to adapt their strategies and sometimes core businesses in response to competition:

“As consultants, we originally were also involved in technology transfer. Ghanaian consultants have progressed and this service is no longer requested”

To succeed, UK companies must possess something different, which enables them to choose wholly owned subsidiary when it is deemed as the most appropriate for value creation. Below is the evaluation of the various components of the ownership advantages as presented in chapter 6, starting with the ownership of unique products.

7.2.1.1 Unique Product

From the above analysis, unique product was unsurprisingly the most important ownership advantage variable with a mean score of 6.8. This is also consistent with Pinho (2007) who identified the differentiated products as one of the ownership advantages. This is essential because with the increasing competition from local as well as other foreign companies in Ghana, there is the need for companies to offer differentiated products. There is evidence that this advantage is being exploited because according to Acquah (2009), Ghanaian consumers and indeed many from other Sub-Saharan countries such as Nigeria perceive products manufactured in emerging countries such as China (the top FDI country in Ghana currently), India, Brazil and South Korea as of inferior quality. Consumers regard products from advanced countries such as the UK, the United States and Japan as of superior quality. It is therefore consistent with the literature in supporting the unique product or service as essential, as it is positively related to successful UK investment in Ghana.

The importance of offering unique products or services has been explored in the extant literature on Ghana (Hinson, *et al.*, 2011; Salami, 2011). The majority of the surveyed companies operate in the service industry, but it is essential that even where similar services are offered, the delivery of the service should be different, relative to competitors (Lillis and Sweeney, 2013) in order to sustain competitive advantage.

Closely related to the need to have differentiated product or service in Ghana is the need to develop powerful brands, and this is discussed below:

7.2.1.2 Brand Strength

It has been stated that companies attempt to differentiate products in a variety of ways, and a very significant part of the process is the creation of positive brand image (Erramilli, *et al.*, 1997). With the average score of 6.7, Brand Strength was the second most important ownership advantage for the surveyed companies. Strong brand has been described as a very crucial ownership advantage in internationalisation process (Dunning and Lundan, 2008b). This is as expected because the emerging affluent customers choose trusted brands, and it has been stated that powerful brands are generally crucial in Ghana (Owusu-Frimpong, *et al.*, 2011). For example, Acquah (2009) reports of a joint venture between a UK company and Ghanaian company for an establishment in Ghana in the brewery industry. He continues that the brand reputation of the UK company was used to launch their product, presenting it as quintessence of quality and taste. The brand strength and reputation therefore enhances legitimacy and offers customer loyalty. It is worth noting that strong brand is not only essential to consumers but also to employees in Ghana. The following quote from an Interview Respondent 3 alludes to this in referring to where the qualified and experienced Ghanaians in the hospitality industry want to work:

“..but everybody wants to be in one of these hotels – the Holiday Inns, the Movenpicks, the Kempinski that is about to open. They want to have that international brand”.

As Pinho (2007) indicates in quoting an SME manager, equity based companies such as joint ventures and wholly owned subsidiaries are more interested in developing their own brands, compared with non-equity based companies who are more interested in competitive pricing. In the telephone industry, for example Vodafone is in competition with MTN from South Africa (market leader) and there are also other major players such as Globacom (from Nigeria), Tigo, Zain and Kasapa (Salami, 2011). Though majority of the surveyed companies are small to medium scale and may not compare favourably with the best ranked brands globally, the importance of brand has been acknowledged in this research, even by the relatively small companies. This is a pointer to the fact there are opportunities for companies which may not be as renowned as the top global brands to still be successful if their brands are nurtured and developed in emerging markets such as Ghana. Having the above as exclusive and privileged possession of assets (Dunning, 1988b), companies need to devise strategies in order to prolong these income generating advantages. To do this, they need management with the appropriate expertise, and below is a discussion managerial experience as ownership advantage as this was strongly evident in the analysis.

7.2.1.3 Management Expertise

This was the third most important ownership factor. In some cases, staff with the appropriate expertise needs to be sent from the UK or other countries if they cannot be obtained from Ghana. An interview with Respondent 3 explains the significance of this variable and how it has been used in Ghana by some companies (words in bracket are the author's words to enhance understanding in the absence of context):

“..I am the only expat (in Ghana working for this company). So it is my understanding of the culture to blend in before we can achieve, and use people we have here, to be with them every day, literally every day. I don't do a GM job here like you would in the UK. I am doing what you would perceive as an owner's job”.

Respondent 3 continued that if he did not treat the business as his own company rather than as a manager as he would have done in the UK, the company would not be successful in Ghana. The following was also added in relation to the required communication skills managers must possess in order to be successful:

“If I give instruction, it is literally followed out without looking at the scenario of the instruction...They just go ahead and do it. And if you are not careful on how you give instruction, you can get some chronic mistakes made”.

The above is consistent with Darley and Blankson (2008) who highlighted among other things, that Africans are different in the way they construct meanings. Additionally Comment 2 from the survey add to the need to have a local partner, especially in dealing with employees:

“Please ensure you have a good local partner who understands the terrain, especially when it comes to employees”

The above demonstrates that without the appropriate expertise, it is difficult to be successful, even with the right product or brand, because companies have to work with people with different cultural orientation. Therefore the ability to quickly understand the business context and the staff, to motivate and direct them, in what the interviewee refers to as ‘being with them every day’, knowing what is required in terms of working as an owner rather than a manger, and having the appropriate communication skills are crucial in sustaining the competitiveness of companies. Furthermore, interview Respondent 3 stated the following:

“You need to understand the system, understand how individuals of Ghana work, and really understand the culture - you could do very well in any business”.

The above could also imply that without the expertise to understand the above, businesses are unlikely to be successful; therefore it is a very important ownership advantage. The next important ownership advantage was company’s experience operating in similar markets, and it is discussed in the following section:

7.2.1.4 Experience Operating in Similar Markets

This emanates from what has been referred to as internal uncertainty (Morschett, 2006). It means where companies lack the experience of operating in similar markets, it may either decide not to internalise or may reduce the degree of involvement, due to the perceived risks associated (Erramilli and Rao, 1990). Morschett above alludes that the influence of market experience on ownership advantage goes as far back as Johanson and Vahlne's (1977) when they considered this as a resource, which could be enhanced for profit maximisation. It has also been stated that international experience not only offers competitive advantage but also contributes in the choice of entry mode, as generally companies with the international experience prefer wholly owned subsidiary (Ekeledo and Sivakumar, 2004). This seems to have been acknowledged by the surveyed companies as majority of them are wholly owned. Also table 6.9 reveals experience of operating in a similar market is the fourth most important factor. To explain the effects of this variable, Respondent 4 was asked the following in an interview:

"Before entering the country, did you or your company have experience in similar markets? How important was this experience in your success in Ghana?"

Below is the brief quotation of his response to the above question:

"Yes, but, by and large, we created it".

Though acknowledging that he had experience in similar markets, which was useful, he also emphasised the importance of not relying on the experience so much but in creating the success of the company by focusing on the present and the future. It is therefore not surprising that experience of operating in similar markets does not appear in the top three of the ownership advantages. However, there are exceptions, because another respondent revealed that the owner of his service company had experience but in the manufacturing company. Respondent 3 added the following in response to the same question:

It wasn't relevant to doing this at all. He saw the opportunity, had contacts, having been in the manufacturing.

It must be added that both Respondents 1 and 2 also stated that before entering into Ghana, the company had experiences in other markets. Respondent 1 stated the following in response to the above question:

“Yes, in so many countries – we are a global company”

In reference to Respondent 3’s comment above, it must be noted that the owner had other resources to utilise in order to ameliorate any deficiencies emanating from lack of experience. These were his contacts that had the market knowledge to tap into. Once the business is established, experienced staff and other stakeholders may be recruited to ensure the success of the company. To elaborate this result further, interview Respondent 6 stated the following in response to having experience in similar markets:

“Our shareholders had previous regional experience from business in pineapple farming and exportation”.

The above results from the interviews and the survey findings are in agreement with Chiao *et al.*, (2010) who hypothesised that the more experience companies have from other international markets, the more likely they would choose wholly owned subsidiary.

The above confirms the importance of exploiting transferrable assets in the form of knowledge and experience. Therefore, though having experience of operating in similar markets is useful, it is not a crucial factor if companies are able to contact people with the required experience, utilise any transferrable skills from related and unrelated industries, and also recruit appropriately to reduce any deficiencies. One way to do this could be the next ownership advantage below, which is having the marketing know-how.

7.2.1.5 Marketing Know-how

As seen above, in some cases, having the right management expertise may not be sufficient ownership advantage, and companies, need to have very strong marketing function. This is more significant with UK FDI in Ghana as table 6.8 reveal their most important motive is market-seeking. Unsurprisingly the fifth most important ownership advantage is Marketing Know-how. This is also consistent with the extant literature. For example, the importance of coordinated marketing in creating competitive advantage has been explored, according to Ma (2004) in reference to earlier research (Ohmae, 2000). Also Rugman, *et al.*, (2011) suggest that superior marketing and distribution skills are typical components of firm-specific advantage, while other studies including Rugman, (1981) have used marketing know-how as proxy for firm-specific advantage, according to Aguilera-Caracuel *et al.*, (2011). Foreign companies have to grapple with the liabilities of foreignness (Nguyen, 2011); therefore UK companies need the expertise to deal with this and to market their goods and services to the Ghanaian market. Consistent with the analysis above, some companies have specifically set up departments to perform the marketing functions.

One may argue that it is not unexpected to have marketing know-how as significant to the UK investor, considering the high number of respondents who were marketing managers (figure 6.1). However, Hinson *et al.*, (2011), for example examined 25 companies in the banking industry in Ghana. With the exception of two companies, all the companies studied had designated marketing department, including Barclays Bank and Standard Chartered Bank from the UK. This is not an isolated case or industry, because it has been confirmed that Vodafone has been adopting various marketing activities in order to increase their current market share of 14 per cent, which puts them far behind the market leaders of MTN (56 per cent market share) and Tigo, who have 24 per cent market share (Salami, 2011). The government of Ghana has recognised the need to manage competition in some industries, with the establishment of the National Communication Authority (NCA) but, the difficulty has been lack of enforcement. NCA is believed to be weak

(Salami, 2011), therefore companies have to scramble for as much market share as they can, with three companies, including Vodafone in control of combined market share of 94 per cent as seen above.

Due to the above, companies with marketing knowhow have various strategies to deal with competition and improve market share. Some of these include promotional campaigns as used by Vodafone, providing enticing prizes of a chance to win Mitsubishi 4X4, cash prizes and houses while others have also used long-term strategies such as relationship marketing with designated relationship managers in Ghana (Okoe, *et al.*, 2013; Hinson, *et al.*, 2011).

7.2.1.6 Human Resource

The effect of human resource has been explored elsewhere as a locational determinant of FDI, as it contributes in determining the competitiveness of countries (Mahmood, *et al.*, 2012; Musila and Sique, 2006). It has also been considered as an ownership advantage for a company once they are hired, as they then become the human capital of the company, especially for industries that require skilled labour (Harvey and Abor, 2009). In the Ghanaian context, companies with competitive human capital are able to manufacture superior goods, offer better services to customers, have better productivity ratio and as a consequence perform better overall (Fening, 2012; Greenaway, *et al.*, 2012; Mmieh, *et al.*, 2012; Barthel, *et al.*, 2011). Some of the issues that emerged strongly in the interview with some companies were low productivity levels and lack of international experience. Below is a quote from Respondent 3:

“Here in Ghana, we have Ghanaian chefs, producing European style food, not having any idea of how it’s supposed to taste ... because they don’t use those types of seasonings, and the food can seem bland”.

The above view was also echoed by Respondent 4, as confirmed by the quote below, which highlight lack of skills in the country among other challenges:

“There are also problems such as lack of infrastructure, corruption and lack of skills, but the company is looking to overcome these and the government could do more to reduce these”

It may be argued that employees with the right experience and skills offer those companies competitive advantage because of the benefits of repeat purchases and customer referral as a result of customer satisfaction and innovation (Hinson, *et al.*, 2011). The above is not an isolated case or an example from a single industry as it has been echoed in other studies in Ghana. Barthel *et al.*, (2011) state that two main concerns confronting foreign companies in Ghana regarding the labour force are that workers are not adequately trained and have low productivity, and these negatively affect what they refer to as 'value added per worker'. They allude that this has effect on FDI, especially if the motive is efficiency-seeking. Besides, Owusu-Antwi, *et al.*, (2013) have identified weak human capital as one of the challenges the private companies face, in spite of the efforts of the Ghanaian government.

The core of this human resource problem has been attributed to policy vacuum in the country as the link between government policy and the activities of the National Council for Tertiary Education appears to be non-existent (Osabutey and Debrah, 2012). It can therefore be concluded from the above that companies whose employees have the appropriate experience are likely to achieve higher customer satisfaction and productivity rating, contributing to the overall achievement of value for stakeholders. Indeed lack of the appropriate human capital is common in Africa (Kinda, 2010) and it has been described as a crisis. Also, Antwi and Analoui (2008) examined World Bank publication titled 'Can Africa Claim the 21st century?', and noted that the future of the continent depends on the human resources rather than natural resources which are being depleted. African countries were therefore urged to solve the human resource crisis in order to 'claim the 21st century'.

Due to the relatively less human capital and low productivity as revealed in the interview, companies that are able to recruit, train, motivate and manage the appropriate workers are likely to create competitive advantage for the companies concerned. This is consistent with the Resource-Based View (RBV) which views human capital of a company as a resource, since the company's knowledge is contained in its employees (Masakure, *et al.*, 2009). The next resource which was

also identified as significant is the financial and natural resources of the company, and this is discussed below:

7.2.1.7 Financial and Natural Resources

Though this research excludes companies that solely operate in the exploration of natural resources, it is not inconceivable that some companies may have access to these in one way or another which may be used to strengthen their operation in other markets, including Ghana. For example, until recently, British Petroleum was involved in the retail of oil and other petrochemical products in Ghana. Though they are involved in oil exploration in other countries, they were only involved in the retail of it in Ghana, and could use assets from other countries to support their investment in Ghana.

Also, having access to financial resources enables companies to expand their businesses and be able to meet other financial obligations (Ekeledo and Sivakumar, 2004). Raising capital in Ghana is difficult partly because of the reluctance and sometimes inability to save with banks due to poverty, and weak stock market (Kagochi *et al.*, 2013; Hinson, 2011; Koku, 2009; Adjasi and Osei, 2007; Naude and Krugell, 2007). In fact financing constraint has been identified as one of the key factors deterring FDI to sub-Saharan African countries (Kinda, 2010). From this research, companies have acknowledged the advantages their resources offer them. Unsurprisingly, both financial and non-financial resources enable companies to dominate markets (Javalgi, *et al.*, 2010). This is particularly essential in the context of Ghana where it has been established that the main reason behind many SMEs unable to start or make progress is the problem of financing (Abor and Biekpe, 2007). It is justifiable to conclude, therefore, that companies with the appropriate financial resources are in a relatively competitive and advantageous position. As it has been stated that in some cases foreign capital may be the way forward for Africa (Musila and Sique, 2006), political leadership is being demonstrated to actively attract FDI to Ghana (Djokoto, 2012;

Acquaah, 2009; Mmieh and Owusu-Frimpong, 2004). The surveyed companies have confirmed the importance of this variable but relative to the other eight other firm-specific variables considered, only two were less important than the above variable, namely company size and Research and Development Resources.

7.2.1.8 Size of Company

The companies surveyed confirmed company size as one of the ownership advantages (Nguyen, 2011). The literature is replete of the reasons why this may be an advantage to companies due to what it could offer (Lin, 2010; Pinho, 2007; Tseng, 2007; Ekeledo and Sivakumar 2004; Erramilli and D'Souza 1995). For example, it is believed that large companies are more advanced technologically and have the human capital required to offer innovative and differentiated market offering. Besides, it is relatively easier for them to raise capital when necessary and they also have the benefits of economies of scale and economies of scope and better bargaining power (Javalgi, *et al.*, 2010; Zhao and Hsu, 2007). Furthermore, they are better able to absorb risks. One would have expected that with all these advantages company size is associated with, it should have appeared much up the list of ownership advantages in order of importance. In terms of the relative importance, only one variable was less important than this. Human resource, financial resources and differentiated products are more important than company size, according to the above analysis, though the literature seems to suggest large company size encapsulates all these. For instance, according to Lin (2010), ownership advantages of a company such as brand name, economies of scale, research and development, product differentiation, management skills, and promotion policies generally increase with company size or are more related to larger companies (also see Zhao and Hsu, 2007). The above makes the findings in relation to company size surprising, because it has not revealed the anticipated results, as it is less significant. This may be explained by the fact that majority of the surveyed companies are small to medium size companies. Despite their relatively small size, they can be competitive and

successful because being small to medium size has its advantages. This is because they possess several useful characteristics, including flexibility and specialisation which may be needed in a competitive environment (Bronzini, 2007). The question still remains whether these advantages of being a small size in an emerging market such as Ghana outweighs the advantages of being a large company. Besides, the relatively less significance of company size to the surveyed companies may be explained by the fact that majority of the companies are from the service industry, therefore economies of scale, for example may not be as crucial as in the manufacturing companies.

Though the extant literature highlights the importance of company size as significant ownership variable in creating competitive advantage because it captures many of the other ownership variables, the above analysis does not support this. Below is the least significant ownership variable.

7.2.1.9 Research and Development Resources

The effect of research and development (R&D) resource was the least important. This may be explained by the fact that majority of the surveyed companies operate in the service industry and research and development may not be needed by themselves, as they may rely on the R&D resources of other companies. For example, though G4S rely on advanced technological devices for some of their security operations, it does not necessarily mean they have to invest in R&D resources to produce their required equipment, as these could be acquired from other companies. It is also not surprising that R&D is the least important in a country such as Ghana because according to Elmawazini and Nwankwo (2012), about 80 per cent of the world's R&D expenditure is concentrated in only ten countries, which do not include Ghana. In fact, they continued that the whole of Africa, the Middle East, Latin America and the Caribbean only account for 5 per cent of the world's R&D expenditure due to weakness in R&D activities in those

regions, particularly in sub-Saharan Africa.

In sum, the above has somewhat justified the selection of OLI as a framework to analyse the FDI determinants. The surveyed companies confirmed which of the ownership variables are significant in order of importance. As far as the author is aware, this is the first research to have ranked the ownership variables, and in the case of UK FDI in Ghana, unique products, brand strength management expertise are the most important ownership variables, with company size and research and development resources as the least important, mainly due to the characteristics of the companies surveyed which predominantly operate in the service industry and are also small to medium in size. Below is a review of the results in relation to the second leg of the OLI triad, locations variables, stating with the possibility for UK companies to locate in Ghana for strategic asset-seeking purposes.

7.2.3 Opportunities for UK companies to acquire strategic assets in Ghana correlates positively with FDI – hypothesis rejected

One of the four main motives why FDI is considered is to seek strategic assets to complement what the company in question already has (Eden and Dai, 2010; Lopes, 2010; Narula, 2010; Dunning, 2001). The above hypothesis was from the premise of the asset-augmenting theory. This posits that companies based in home countries (in this case the UK) invest in host countries (in this case, Ghana) in order to acquire strategic assets to support what they already have in their home countries or to reduce the assets of assets of competitors (Dunning and Lundan, 2009; Dunning, 2000). These include what Dunning (2001) confirms as access to technological and marketing synergies, and assets of competitors, customers and those offered by national educational and innovatory systems (also, see Cleve, 2008). As seen above, the hypothesis was rejected, with a p-value of 0.366. It is not inconceivable that this is case. This is consistent with other research on FDI in Ghana. For example, Barthel *et al.*, (2011) believe that the motives for investing in Ghana, just like in other developing countries are only three instead of four –

market-seeking, resource-seeking and efficiency-seeking, with market-seeking being the most important in Ghana. For example, considering Dunning's assertion that companies locate in host countries to take advantage of their innovative and educational systems, there is no evidence that Ghana has a better educational system than the UK. In fact none of the Ghanaian universities features on the world university rankings for example (Times Higher Education, 2014). African countries generally perform badly in this regard, with only three universities from South Africa on the list. Osabutey and Debrah (2012) also state that the enrolment levels, especially on science and technology programmes in Ghana's tertiary institutions is not encouraging, which adds to the unlikely possibility of companies from the UK locating in Ghana to take advantage of Ghana's science and technology. Furthermore, considering illiteracy is still a major problem in the country with about 87 per cent of mothers being illiterate (Ajasi and Osei, 2007), it is not surprising that companies from UK (expected to have better standard of education compared to Ghana) are not expecting to acquire strategic assets and expertise normally derived from education, from Ghana. It must be clarified that recent enrolment trends in relation to girls in education is positive, but this will take time to take effect (IMF, 2009). In this regard, Eden and Dai (2010) state that Dunning started with three motives of FDI – resource-seeking, market-seeking and efficiency-seeking, and only added the strategic asset motive in 1991 to capture companies which were allying in order to acquire assets they did not have themselves. It may be stated that though strategic asset motive is not strongly related to current ownership advantages of the surveyed companies, it may still apply for example in intra-African investment or where the UK company wants to use Ghana as a location to acquire strategic assets useful in launching into similar African countries. For example, starting in Ghana, Blue Skies Holdings limited (Appendix L) are currently operating in Egypt, South Africa and Senegal.

It is also essential to closely examine the correlation between the different components of ownership advantages and the strategic asset motive for further explanation of why the hypothesis was rejected. Though positive correlation had been hypothesised majority of them were negative and insignificant with the p-value above 0.05. It may therefore be said that in general, the more ownership

advantages companies have, especially in relation to strength of their brand, marketing know-how, human resources, financial resources, company size and research and development resources, the less likely their motive will be strategic asset-seeking. Two explanations may be offered here. First, it may be that companies believe their above ownership advantage is sufficient for them to compete successfully in the Ghanaian market, therefore they do not need to dilute their assets with those of other companies, or because they believe generally the companies available do not have assets that could be integrated relatively easily to offer the required synergy. A policy recommendation would be for the government to assist companies to acquire desirable assets that may attract other companies. This is because local companies possessing desirable assets attract FDI especially in a form of Joint venture (Chiao, *et al.*, 2010). As stated in the literature firm-specific advantages may be developed and nurtured both by the parent company and by the subsidiary (Nguyen, 2011; Rugman and Verbeke, 2003). Therefore accessing complementary assets from the subsidiary in Ghana could contribute in the overall ownership advantage of the company. Examples of these assets may be unique products, management expertise and experience of operating in similar markets.

It may therefore be stated that having unique products with international appeal and the appropriate experience have the potential to attract strategic-seeking FDI, thereby improving the repertoire of businesses in the country. Below is a review of the results in relation to the effects of infrastructure on FDI.

7.2.4. The relatively less developed physical and financial infrastructure in Ghana discourages UK FDI, regardless of FDI mode – hypothesis accepted

For the hypothesis to be accepted there had to be two conditions. First, the descriptive statistics needed to confirm that indeed the companies find infrastructure to be important in their investment in Ghana. Second, there should not be any significant difference between how wholly owned companies and companies using other entry modes have viewed the infrastructure variable. This is

shown by the differences in the mean values. T-test was used as seen chapter 6 and the results shows there is no significant difference, with the p-value of 0.522. This result confirms the generality of infrastructure as a determining factor. A Quote from Respondent 2 sums up how the state of the current infrastructure is perceived:

“The negative is that the infrastructure is still basic”

The above quote was in the context of what the respondent revealed as a good market potential for the country but negatively affected by the standard of infrastructure in the country.

Furthermore, the descriptive statistics reveal the individual infrastructure variables and how they were viewed as contributing to FDI in Ghana. It was confirmed that the presence of strong stock market was irrelevant to the surveyed companies with both the mean and median around the neutral point of 3. This may be because the current stock market is not very strong, with less than 40 companies listed on it. Therefore companies already in the country or considering investing in the country seek alternative sources of capital injection. Table 7.1 adopted from Kagochi *et al.*, (2013: 62) confirms the strength of the Ghana Stock Exchange compared with those in other Sub-Saharan countries:

INDICATORS FOR SELECTED STOCK EXCHANGES IN SSA BY 2008					
Country	Listed Domestic Companies	Market Capitalization (USD bn)	Value traded (USD bn)	Turnover ratio (%)	Market capitalization (% of GDP)
Côte d'Ivoire	38	7.1	0.32	4.1	30.2
Ghana	35	3.4	0.15	5.2	21.1
Kenya	53	10.9	1.44	11.8	31.6
Malawi	14	1.8	0.06	3.9	41.5
Mauritius	41	3.4	0.4	8.9	39.8
Namibia	7	0.6	0.02	2.8	7.2
Nigeria	213	49.8	19.95	29.3	23.5
South Africa	425	491.3	401.49	60.6	177.5
Swaziland	7	0.2	0	0	7.8
Tanzania	7	1.3	0.01	2.1	6.3
Uganda	6	0.1	0.01	5.2	0.8
Zambia	15	2.3	0.07	4.1	16.4
Zimbabwe	81	5.3	0.81	5.1	n.a.

Table 7.1: Indicators for selected stock exchanges in Sub-Saharan Africa by 2008 (Kagochi, et al (2013: 62))

Kagochi, et al. (2013) above continue that the average number of companies listed on the stock market in sub-Saharan Africa, excluding South Africa is 44, which is higher than those on Ghana Stock Exchange. If South Africa is included in the equation, Ghana has less than half of the average number of companies listed and the capitalisation, as the average increases to 73. To put this in perspective, Kenya's market capitalisation is over three times the size of Ghana. It is therefore not surprising that the average UK company surveyed does not attach significance to the state of the stock market in Ghana. It must be stated that the number of companies listed on the Ghana Stock Exchange as stated above represent an improvement over the years from 24 (Owusu-Frimpong, et al., 2011). Therefore financial infrastructure in relation to the stock market neither encourages the surveyed companies nor discourages them. However, the other infrastructure

variables namely availability of reliable energy, transport infrastructure and stability of the local Ghanaian currency (the Cedi) were found to be significant. This is in agreement with the literature and the hypothesis.

The next infrastructure variable is Energy, and it has been defined in this context as the supply of reliable electricity and gas which is crucial for businesses. From the above results, the surveyed companies found this to be the most important infrastructure variable, with high mean and median scores. An interview with Respondent 4 emphasised the importance of this variable and urged the government of Ghana to provide a solution to the problem as stated below:

There should be more reliable energy supply or help to develop self-generation energy projects, for example, biogas. At the moment the costs of energy in Ghana is just too high and even the supply of energy is not reliable. We are sometimes compelled to use generators, and we are now looking into biogas.

The above is significant because the interview question was not directly related to energy. The question was, “what do you think the government of Ghana could do to make your company more profitable?” The fact that this was highlighted though the question was not specifically about energy emphasises the importance of energy to companies. The above was not an isolated case because another respondent urged the government to support renewable energy projects. It is worth noting that, the energy supply is so unreliable that companies are seeking alternative means to provide their own energy and are seeking government’s support, as seen from the above interview. According to the IMF country Report on Ghana (IMF, 2013), the US government and the Ghana government produced a joint report in 2011 which confirmed that provision of electricity and access to affordable credit present heavy burden especially for small to medium size companies, who constitute the majority of the surveyed companies. This research finding is also consistent with a case study which was presented at the Academy of Marketing conference in 2011 (Osei, 2011; Appendix L). This case study confirmed infrastructure as one of the main challenges facing the country. The result here contributes in emphasising how crucial reliable energy is to businesses. The above

IMF report reveals the government remains committed in ensuring reliable supply of electricity. Relative progress has been made according to the Doing Business report of 2014 regarding getting electricity, as they have improved their relative position from 88th in the world to 85th out of 189 countries, which is better than some African countries such as South Africa, Nigeria, Mali, Kenya and Cote d'Ivoire.

The next important infrastructure variable is transport. The roads around Accra, which is the capital city of the country, and also hosts majority of the surveyed companies was described as terrible as confirmed by the case study prepared as part of this current research (Appendix L). Respondent 3 stated that the development of Accra, the capital city of Ghana and the country as a whole has been dramatic in the number of businesses now establishing themselves in Ghana as a hub for West Africa. Transport infrastructure therefore needs to be in good condition to facilitate the travel to the other African countries the hub in Ghana serves. Respondent 3 acknowledged that the road system is being developed, especially after the discovery of oil in the country. He continues as follows in describing the transport situation in Ghana

“Transport is still a major issue, but it is getting there. It is better than it used to be, and in some cases it is getting worse because of the number of vehicles now being brought into the country and the expansion”.

The above highlights the significance of both air and road travel in facilitating both internal and external business travel. However, the state of transport infrastructure is currently not sufficient especially regarding road and railways, as the above confirms transport is still a major issue, though it has been acknowledged that improvements are being made. Some of the comments submitted through the survey included reference to the rail network. Below is an example from Comment 4:

“Railway channels need to be provided. I believe this will reduce congestion, and it should be cheaper”.

Regarding the provision of rail network, it has been stated that the Ghana Government has recently signed the biggest rail deal in 50 years of the tune of \$6

billion to rehabilitate existing networks (Badu *et al.*, 2012). Though this will contribute in retaining companies in Ghana, because it has been identified as one of their concerns, there is still much to be done. This is because the rail network has been left unattended for many years. Another respondent also stated the following through the survey in relation to transport infrastructure on their business, especially in relation to punctuality to meetings (Comment 14):

“An ability to provide a full professional service is a confining issue with local consultants due to many distractions that arise with the culture and the effects of traffic delays on meeting times”.

The above is in agreement with the literature that foreign companies prefer to invest in countries with well-developed roads, airports, reliable power supply, telephones and internet access (Kinda, 2010; Onyeiwu and Shreshtha, 2004). This is because, holding other moderating variables constant, bad infrastructure has the potential to increase costs and countries with better infrastructure attract more FDI due to the perceived reduction in costs (Morisset, 2000).

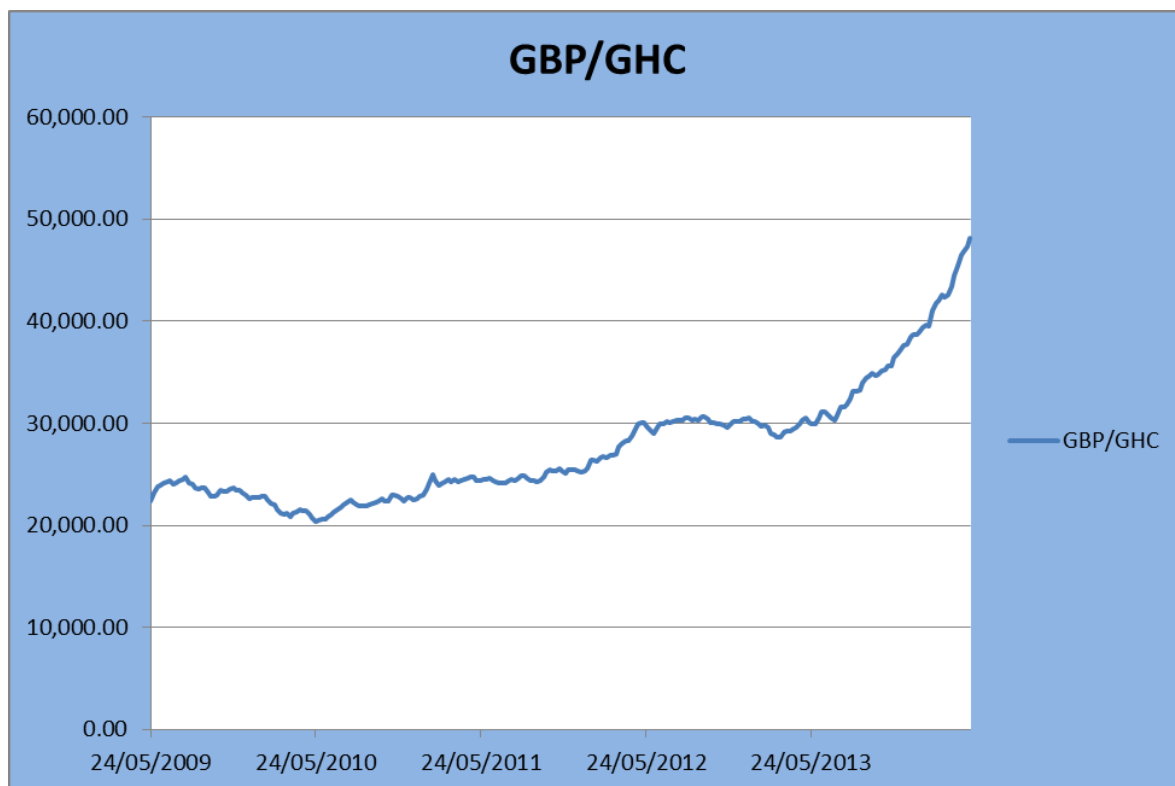
Apart from the above, the effect of exchange rate volatility on UK FDI was investigated. With the mean above the neutral and a median of 4, it was accepted that volatility is disadvantageous to the surveyed companies in their continuous investment in Ghana. Selected companies were interviewed in order to offer further explanation of the findings. One company lamented that the management of exchange rate was a serious concern for their business, and also stated that Ghana does not feature near the top of the ease to do business table because of how the country manages exchange rate:

“I suspect this may be because of the management of the exchange rate with the dollar - you can easily record how it stays in line with this currency day in day out...continued management of exchange rate – it is damaging the company as it is. They should not fix the exchange rate but allow it to float naturally, instead of tagging it to the dollar. We believe the currency does not float naturally but the government says it does”.

The above interview provides illumination to the perception towards how the exchange rate regime is being managed, which is being tagged against the dollar.

It is understandable to tag the Ghanaian currency (cedi) against the dollar as it is a more stable currency. Despite the perceived management of the exchange rate volatility as indicated above, there is still a significant level of volatility. Therefore the above interviewee felt tagging the cedi against the dollar contributed to the volatility. It must however be clarified that not tagging the cedi against a stable currency could have created more volatility than being experienced. Figure 7.1 shows how the cedi has performed against the pound sterling over a five year period (from 12th May, 2009 to 12th May 2014), using weekly data from Oanda (2014).

Figure 7.1: Exchange rate between Ghanaian cedi and the pound sterling from 12th May 2009 to 12th May 2014



Source: oanda, 2014

From Oanda’s historical exchange rate data which was used to develop the above chart, the cedi depreciated against the pound from 22,365.81 cedis to the pound on 12th May 2009 to 48,091.50 cedis to the pound on 12th May 2014. Over the five year period there was not a single week that the exchange rate remained stable as

the chart above shows, making it unsurprising that the companies surveyed called for a more stable currency in Ghana. For example, one of the comments submitted with the questionnaire was that the Ghana government needs to do more to stabilise the cedi.

A review of the extant literature confirmed the effect of exchange rate volatility on FDI flow is inconclusive. It has been stated elsewhere that volatility may have positive effect or negative effect depending upon the circumstances such as country of manufacturing and country of distribution (Kyereboah-Coleman and Agyire-Tettey 2008; Cushman, 1985). However, from the surveyed companies, it is a significant deterrent, as also confirmed by Owusu-Antwi *et al.*, (2013). The perception of the interviewee above is important because not only does it confirm the detrimental effect of the variable on the company the respondent represents, but also goes further to suggest the exchange rate problem has contributed in making Ghana a less competitive investment destination. It was probed further whether the interviewee would recommend a UK company to invest in Ghana, and the response was that he would have done fifteen years ago, but in the current state he would not recommend the country to other investors. It is worth noting that the above is evident in the literature on exchange rate volatility and exchange rate regime (see Abbott, *et al.*, 2012; Nyarko, *et al.*, 2011). This is because whether the government allows the exchange rate to float naturally or if it is closely connected with the dollar, it is a system adopted to manage the relationship between the Cedi and the dollar. Some of the reasons offered in the literature to explain the relationship between volatility and FDI flow is the issue of risk and uncertainties, and some companies may defer investment the higher the probability of volatility (Abbott and De Vita, 2011).

It must be emphasised that the exchange rate behaviour is not taken in isolation but in conjunction with other OLI variables. Other research on the effect of exchange rate volatility on FDI found weak correlation (Nyarko, *et al.*, 2011). However, the above in reference to only UK companies reveal significant relationship through the mean and the median values and the interview responses.

From the above, the exchange rate volatility is significant for UK FDI, despite the conflicting evidence in the literature. At best, it delays the decision to invest (Abbott and De Vita, 2011) until there is more incentive to invest from the other OLI variables or from the strategic direction of the company. Again from the literature and from the above results, there is no evidence of this variable playing a lesser role if the entry mode changes, emphasising the universal nature of the problem, which needs to be addressed. One of the reasons the surveyed companies felt exchange rate volatility and the state of current infrastructure discourage FDI was because it potentially increases costs, and below is a discussion of the correlation between efficiency-seeking companies and infrastructure.

7.2.5. Infrastructure is likely to be a deterrent to efficiency-seeking companies – hypothesis accepted.

To test this hypothesis, correlation was run for the significance of the relationship between the efficiency motive (cost reduction) and infrastructure, and the level of significance was 0.000. The hypothesis has overwhelmingly accepted. Infrastructure included roads, railways, airports, ports and also concerning financial infrastructure such management of exchange rate volatility. This result is significant because Barthel *et al.*, (2011) for example questions why Ghana has not been very successful in attracting efficiency-seeking FDI. Establishing a correlation in this research between efficiency-seeking and infrastructure contributes in establishing what UK investors consider when their motive is efficiency-seeking. This is consistent with results elsewhere. Cleeve (2009) is of the view that the underdeveloped infrastructure has contributed in Sub-Saharan Africa lagging behind other regions in the global share of FDI. This is not surprising because bad physical infrastructure increases transaction costs, reduces return on investment, increases trade barriers, reduces competitiveness and access to international and domestic markets (Khadaroo and Seetanah, 2010; Harvey and Abor, 2009; Nwankwo, 2000). The IMF identified what they called infrastructure gaps in roads, energy, storage facilities, irrigation systems, and they believe the provision of these will encourage private investment (IMF, 2013). As seen from table 6.12, some

companies trade in Ghana as well as in other African countries, and good infrastructure contributes in cost reduction. Anaman and Atta-Quayson (2009) for example found that the physical distance between Ghana and other West African countries was significant in determining the movement of trade between the countries. However, this is substantially moderated by infrastructure, as reliable infrastructure between the countries concerned create efficiency. Yet, the infrastructure situation in Ghana is not healthy, though improvement has been made. It has been stated that the country has infrastructure deficit, and there is lack of funds to improve the infrastructure to the required standard (Badu, *et al.*, 2012). It must be emphasised however, that this problem is not peculiar to Ghana. African countries generally are confronted with the problem of shortage of transport infrastructure, which means Ghana is not disadvantaged when competing with other West African countries.

Besides, though the effect of exchange rate on FDI has been inconclusive in the literature (Kyeremboah-Coleman and Agyire-Tettey 2008), this result is consistent with a similar study in Zambia (Ngowani, 2012), which confirms that exchange rate volatility negatively affect the flow of FDI due to the perceived increase in the risk level as a result of the uncertainty associated with exchange rate volatility. The comment below submitted with the survey provides further explanation of how companies view this variable (Comment 16):

“The government can do more to encourage foreign direct investment in Ghana, example, stabilising the local currency, etc.”

The above is without clear context to establish whether this is in relation to potential investors or those who are already in the country. Nevertheless, it confirms the fact that investors would prefer a more stable Ghanaian currency.

Besides, reliable energy was the most important infrastructure variable to the surveyed companies, and it is not surprising that it correlates with efficiency-seeking FDI, because it adds to the cost items, as companies seek back-up energy options which are sometimes more expensive. An interview from Respondent 4 sums up this situation:

“At the moment the cost of energy in Ghana is just too high, and even the supply of energy is not reliable”

Respondent 5 adds to the energy situation and other infrastructure variables:

“I think one of the problems is infrastructure. Quite recently we had some energy crises. Also a lot of businesses are springing up. They need more power to be operational. So that’s one of the key issues now – electricity, improved infrastructure”

Energy disruption is a common phenomenon in Ghana, as the above interview confirms of recent energy crisis. The comment below submitted with the survey also explains effect of energy cost on the overall cost of doing business in Ghana (Comment 8):

“Cost of doing business is very high. Taxes and electricity tariffs need to be reduced”

Where possible, efficiency-seeking companies will locate in countries which offer them lower cost, and with higher energy cost and unreliable supply, this may be one of the reasons why Ghana has not been as successful in attracting efficiency seeking FDI (Barthel, *et al.*, 2011). Also, as Owusu-Antwi *et al.*, (2013) put it, resource-seeking companies also seek cheaper input including energy. It has been acknowledged that the prevalence of the problems facing the energy sector could affect not only businesses but also fiscal effects and growth in general (IMF, 2013). According to this IMF report, entrepreneurs are concerned about the unreliable nature of energy supply, though measures are being taken to improve the situation such as the restoration of the West African Gas Pipeline for the supply of gas from Nigeria. The concern is justifiable because alternatives such as private generators and biogas projects being used by some of the companies interviewed are expensive. Below is a discussion of whether companies whose primary motive is market-seeking have answered the questions in relation to infrastructure differently.

7.2.6. Infrastructure is likely to be a deterrent to market-seeking companies – hypothesis rejected

Contrary to expectation, this hypothesis was rejected with 0.522 level of significance. This is contrary to Kinda (2010) who states that infrastructure is particularly important to foreign companies motivated by large markets, since the availability of good infrastructure increases the geographical areas companies could reach with their products and services. This result is therefore contrary to expectation and a pointer to the essence of narrowing down FDI research to individual countries where practicable. Similar to the above, the insignificant correlation emphasises the importance of infrastructure regardless of the motive of FDI, as it has been alluded to be significant even when the motive is resource-seeking (Owusu-Antwi *et al.*, 2013). It also implies that other factors are more important to companies than infrastructure when their motive is primarily market-seeking. Some of these are market size, per capita income, market growth, access to regional markets, structure of the Ghanaian market and consumer tastes and preferences (Wadhwa and Reddy, 2011). Furthermore, though infrastructure, particularly in relation to transport facilitates market-seeking FDI, it has been found to be relatively essential for vertical integration (Khadaroo and Seetanah, 2010). Besides, the fact that majority of the surveyed companies operate in the service industry offer some explanations. Concerning transport infrastructure for example, normally the consumers themselves are expected to make the journey to the service providers such as hotels, financial institutions and telephone services; therefore companies themselves may not be too concerned about additional costs in consumers' access to the products. Regarding financial infrastructure, market-seeking companies are as in need of access, as all the other companies with different motives.

In sum, though infrastructure is essential to investors, the moderating effect of market-seeking motive is weak if anything, as far as the surveyed companies are concerned, due to the insignificant correlation. The next section discusses market size and market potential and their relationship with FDI.

7.2.7. Market size has a positive and significant relationship with FDI regardless of FDI Mode – Hypothesis Accepted

The above hypothesis was accepted, as the T-test did not reveal any significant difference between wholly owned subsidiary and the other entry modes, with p-value of 0.090. This is contrary to the assertion that companies are more likely to enter attractive markets through wholly owned subsidiary (Nisar, *et al.*, 2012). However this current result is consistent with theoretical expectations because market-seeking motives are at the forefront of subsidiary development, and additionally market size has been considered as a significant determinant of FDI (Owusu-Antwi, 2012; Majocchi and Presutti, 2009; Dunning, 1993). It has been stated that Ghana has the second largest economy in sub-Saharan Africa (Owusu-Antwi, 2013). It must be stated, however, that contrary to expectation, the companies surveyed do not appear to be as concerned about what consumers can buy now (the current purchasing power) but the potential in the country, as a result of economic stability, the potential to access other markets from Ghana, and the improving living standard. It is understandable for companies to invest, based on the potential of the country, especially for market-seeking companies, because the levels of poverty have been decreasing, which logically will increase the purchasing power of the populace (Owusu-Frimpong, *et al.*, 2011). According to Abor *et al.*, (2008) a research involving a survey of 97 companies in Ghana over a period of three years revealed that foreign companies in Ghana are more interested in serving the domestic market than being export-oriented. Thus, majority of companies are expected to be market-seeking, hence the importance of market size and market potential. This is spite of the fact that other research elsewhere reveal the opposite that foreign companies tend to be export oriented (Greenaway *et al.*, 2004; Aitken *et al.*, 1997). This is another pointer to the fact that the Ghanaian business environment is different and should not always be viewed only through the lenses of the status quo. This is because factors that have been found significant elsewhere may not necessarily have similar level of significance, if any, when applied in the Ghanaian business environment (Nyarko, *et al.*, 2011). Though the significant proportion of people in Ghana are still poor and dependent

on aid (Mmieh, *et al.*, 2012; Hinson, 2011; Abdulai, 2009; Easterly, 2002), the poverty level has been reducing in recent times, particularly since 1999 (Ajasi and Osei, 2007; IMF, 2006). Koku (2009) describes poverty in Ghana as a chronic problem, and continues that unemployment is about 20 per cent. These logically have effect on people's current ability to afford some goods and services. Crucially, though the UK companies surveyed were not satisfied with the purchasing power in Ghana, they appear to be drawn by the potential benefits to be derived in the market, therefore this variable in relation to FDI may well be defined as market potential rather than market size, as far as the UK investor is concerned. Interview Respondent 1 stated the following in response to a question about factors essential for continuous investment in Ghana:

"...for the case of Ghana, the returns are good and a crucial factor - I don't think there will be economic reason for [this company] (the author's own words to protect the identity of the company) to pull out of Ghana".

Another interviewee (Respondent 2) stated the following in relation to the growing of the Ghanaian economy and its attractiveness to foreign companies:

"The positive is that it is a growing economy. So I think these indicators are good enough to attract a lot of companies"

Furthermore, being part of the ECOWAS zone, the market size is not limited to Ghana, because it is expected that the proposed introduction of the eco as the common currency for some of the countries such as Ghana, Gambia, Guinea, Sierra Leone and Nigeria by January 2015 will improve trade among these countries (Anaman and Atta-Quayson, 2009; Beraho, 2007). Besides, an improved transport infrastructure among the African countries will increase the market size. As a result the United Nations Economic Commission for Africa, the African Development Bank and the African Union are projecting the Trans-Highway network as transcontinental road project to connect African countries to improve trade (Badu, *et al.*, 2012). This also supports the belief in the positive effects of regional integration on FDI attraction (Ezeoha and Cattaneo, 2012; Osabutey and Debrah, 2012; Feils and Rahman, 2011; Cavusgil, *et al.*, 2008; Rugman and Oh, 2008; Rugman and Li; 2007; Rugman and Verbeke , 2007). Considering market size is found to be important to FDI in Ghana, it is legitimate to confirm if it

correlates with the market-seeking motive as anticipated.

7.2.8. Market size is significant if FDI motive is market-seeking – hypothesis rejected.

The above hypothesis was rejected as the p-value was 0.403 in spite of the fact that market-seeking has been associated with market size (Owusu-Antwi, 2012; Majocchi and Presutti, 2009). The main reason attributable to this result is that Ghana's market size measured by GDP, is small compared to a neighbouring country such as Nigeria (Barthel, *et al.*, 2011). This suggests the UK companies look for other factors beyond the market size. From the above results, UK companies are looking for the potential and not necessarily the current market size, as highlighted below by Respondent 2:

“People will consider investing in Ghana because it has the potential for growth. The clientele base is there, and the potential for growth is also there”.

The above is also consistent with the literature in relation to market potential (Cleeve 2008; Dunning, 1998). These studies mention the key variables in relation to market-seeking FDI, and these include not just the size of the domestic and regional markets, but also the growth of those market. Considering the economic progress Ghana has made over the years, it is not difficult to understand the direction of the growth trend, which has been further increased with the oil find recently and the government's preparedness to make favourable policy changes over the years (IMF, 2013; Badu *et al.*, 2012; Mmieh, *et al.*, 2012; Senadza, 2012; Owusu-Frimpong, *et al.*, 2011; Owusu-Manu *et al.*, 2008). Therefore though the surveyed companies may be indifferent regarding the current purchasing power, strategically there is potential for market-seeking companies to achieve good returns on investment, especially when one considers the potential as stated in the literature on the bottom of the pyramid (Karnani, 2007; Prahalad and Hammond, 2002). In this regard, Africa is seen as the next growth market with Ghana seen as transition economy and growing rapidly (Chironga, *et al.*, 2011). It is therefore not

surprising for companies to make a foothold in the market in time for the big take off of Africa, with less emphasis on what the countries are able to offer now.

It must also be stated that two other motives other than market-seeking were found to correlate positively with some of the individual components of market size. These were the need to be close to potential partners and resource-seeking. Several reasons may account for these results. Some of the companies surveyed have multiple motives of investment in Ghana, and below is a closer look at each of the correlations:

First, regarding the need to be closer to potential partners and market-seeking motive, it may be that some of the potential partners themselves are involved in market-seeking oriented activities, making market size and potential indirectly related to the affected companies whose primary motive might not necessarily be market-seeking. For example companies operating in installation and management of towers for telephone companies may not necessarily be operating because of the market size in Ghana but because of the cooperation and demands received from other companies. Helios Towers operate in a number of African countries including Ghana, Tanzania and Democratic Republic of Congo. Though their motive is not to target increasing demand in telephone subscription, (market size and market-seeking), but to be close to their partners (other companies) in order to provide the services required by those companies. The following quotation from their website explains what they offer. It must be emphasised that this does not mean Helios Towers did take part in the study:

“At Helios Towers Africa, we are providing a solution to operators who require a telecoms infrastructure to meet these demand levels. We already own over 3,500 towers in Africa on which we host all the continent’s major telecoms operators. Our solution is also the most cost-effective as we enable operators to share towers and we also build new ones” (Helios Towers Africa, 2014).

The above is not an isolated case as the p-value for the Pearson correlation between the need to be close to current and potential partners on one hand, and market size on the other was positive and very strong at 0.003. Thus, their target is

not the growing demand for mobile subscribers (market size and potential), but on the companies interested in providing the mobile services. It may be argued that the above highlights the possibility that motives may be blurred for some companies in some contexts, because an increase in market size may also mean more demand for auxiliary services. The quotation below was captured in an interview with Respondent 7 who acknowledged the pull effect of other companies:

“But companies that come to give add-on services, especially downstream services like providing security services, constructing pipes, providing catering services to those industries are captured under GIPC – a lot of them; pipe construction, welding and engineering, fabrication and transport, security”.

The second unexpected result was that market size is correlated positively with companies whose primary motive was resource-seeking. This could be that the resource-seeking companies surveyed also provide goods and services for market-seeking companies or are also providing goods and services for the local market, hence the need for the appropriate market size (Brouthers, *et al.*, 2008; Thompson, *et al.*, 2008). The interview response below from Respondent 4 confirms the multiple motives of some of the companies hence the correlation between market size and resource-seeking motive:

“Our factory in Ghana is our biggest... We supply most of our products to the European market through our retail customers such as Marks and Spencer, ASDA, Waitrose, Albert Heijn, Carrefour, McDonalds, Sainsbury’s and many more. However, we are developing the Ghanaian market and are offering a variety of products to the local market”.

The above highlights predominant aim of the company in question which is to supply to powerful brands in Europe but the local market is also important to them, hence the correlation.

In sum, as far as the surveyed companies are concerned, market size and potential as a variable is so significant because it cuts across many motives of FDI, as multiple motives are pursued by the companies. Below is the discussion of the effects of the next locational variable, political factors.

7.2.9. There is positive association between political factors and UK FDI in Ghana, regardless of FDI mode – hypothesis accepted

The above hypothesis has been accepted. As seen from the T-test results, there is no significant difference between wholly owned companies and those who operate in the country with a different entry mode (p value of 0.086). The current political conditions therefore have similar effect on all UK companies. It is not entirely surprising, though the expectation of the effects of political factors on FDI attraction and retention appear rather mixed and sometimes controversial in some studies (Cleeve, 2012; Pajunen, 2008). Harvey and Abor (2009) on the other hand assert that the importance of political factors in relation to FDI cannot be overemphasised because they create investor confidence, eliminate uncertainty and generally reduce costs.

Ghana has experienced political stability following periods of nationalism, socialism and military regimes since its independence from the British colonial rule (Owusu-Antwi, *et al.*, 2013; Koku, 2009; Dadzie and Johnston, 2008; Milhomme, 2004). A number of companies interviewed explained some of the reasons why this variable is essential for the surveyed companies. The reasons provided were in two ways. First, favourable political conditions would encourage them to continue investing in the country. On the other hand, serious political risk would contribute in making the companies divest from Ghana. For example, Respondent 1 stated that in a situation where there is serious political risk where there is threat to their investment or threat of nationalisation, they would pull out of the country. This is consistent with the survey result with a mean of 4.3 and median of 4 in relation the provision of an atmosphere for companies to operate with less political interference (table 6.13). Similarly, threat to the lives of their members of staff would also cause them to divest from Ghana. Respondent 1 added the following as contributing factors:

“...serious political crises, prolong war - tribal or ethnic that impedes business and poses serious threat to investment”

This view was echoed by Respondent 6 as stated below, confirming they would pull out of the country under the following condition:

“...a dramatic degradation politically resulting in turmoil, but we do not expect this to be the case in Ghana”

The above highlights the investors' confidence in Ghana, but also reveals the possible action of the company if there is a political turmoil. Ghana is politically stable, and it has been commended for its exemplary democracy (IMF, 2013; Owusu-Antwi 2013; Asare, *et al.*, 2012). This is consistent with the need for continuous political stability in the country, as confirmed with a mean of 4.2 and median of 4 (table 6.13). It has been suggested that political stability is a prerequisite for FDI (Barthel, *et al.*, 2011). It must however be emphasised that the threshold for coping in a politically risky environment varies from company to company. The quotation below from Respondent 1 explains why it might be relatively easier for global brands to persevere even in a situation of political unrest.

“...we are a global brand, and most of the brands want to spread their tentacles almost everywhere. So even in situations where there are serious threats in the system, it's not so easy for multinationals, especially global businesses to just close down.”

Respondent 1 continued that all political factors are taken into consideration but are evaluated based on the company's' resources and their strategic objectives. An example was given of the political climate in Egypt in 2013. The respondent highlighted that their subsidiary in Egypt might not be achieving profitability in the country at the time but the company was still operating in accordance with their objective to be perceived as a global brand. This has also been alluded to by Owusu-Antwi *et al.*, (2013) in their conclusion that foreign investors are influenced by their global strategy.

It must be emphasised that the above is more in relation to the retention rather than attraction of FDI. A period of political unrest may delay the time of entry into a country but once the company is already located, they may be retained if their motive is brand development. However, smaller companies may not have the required ownership advantage to continue operation, especially if their revenue

generation stream has been stopped by prolonged political unrest, and they still have to honour their obligations to stakeholders such as employees.

Regarding the effect of political factors on attraction of UK FDI, below are some of the reasons given through the interviews and comments submitted with the survey:

“Ghana is one of the safest places to invest in in Africa. If you take Ghana, (the other countries are) maybe Botswana, maybe Kenya. (It is) one of the safest in terms of protection of your returns, protection of your investment – The political risk is very low” (Respondent 3)

Respondent 2 also stated the following:

“The political climate is stable. I think the labour laws are favourable to both local and foreign companies”.

Here is further comment from Respondent 3 in reference to political stability:

“...The country is very stable. There's been change of government over the last 8 years, very peacefully and very easily... So a lot of businesses use Ghana because of its safety, security cushion, to then centralise their operations from here”.

All the above confirm that political stability makes the country attractive, allowing some companies who primarily do not necessarily plan invest in Ghana, to use the country as a hub to access other countries. The comment submitted with the survey (Comment 23) illustrates this fact:

“We are now using Ghana as our hub and base for business activities across West Africa but do not expect much to happen in Ghana for 2 to 3 years”.

The relatively stable political situation in Ghana has also been acknowledged in the literature. For example, it has been stated that the West perceive Ghana and Botswana as the beacons of democracy (Asare, *et al.*, 2012). Another political factor found to be significant was the rule of law, which is sometimes considered as an institutional variable. Consistent with Asiedu (2006), if rule of law does not apply in a country, there will be weak enforcement which could deter investors. From the above, the importance of political factors includes continuity due to reference to peaceful transition in Ghana. Companies also find their ability to operate without

political interference attractive, in reference to protection of returns and protection of investment, as suggested by Boateng (2004). This contributes in making the country an attractive investment destination for both those already in the country and those intending to invest in the country, according to the surveyed companies. Consistent with Mensah (2012), control of corruption was also found to be important. Also Osei-Tutu *et al.*, (2010) suggested that anti-corruption policies by the Ghana government are essential to attract FDI. However, this was not as crucial as the other political factors such as companies' ability to operate with less political interference, political stability and continuity, regulatory framework to promote FDI in Ghana, evidence of rule of law and democracy. The least important political variable to the surveyed companies was tax incentives.

From the above interview results, support for the effect of political factors on UK FDI attraction and retention is overwhelming, and there is no evidence that the political factors are viewed differently with change of entry mode. Below is a discussion to confirm if the effect of political factors differs according to FDI motive, especially in relation to resource-seeking, since it is believed that political factors may be insignificant to resource-seeking companies (see Cantwell, *et al.*, 2010)

7.2.10. The increasingly favourable political factors will have no effect on FDI from the UK if the motive is resource-seeking – null hypothesis accepted

It is noted that Ghana is endowed with natural resources/raw materials such as minerals, agricultural and forest resources (Dadzie and Johnston, 2008; Marfo, 2008; Mmieh and Owusu-Frimpong, 2004). However, this research excludes companies operating in the oil, gas and the minerals industries, as these are guided by different regulations. Companies included are those that are required to register with GIPC in accordance with the GIPC Act 478 of 1994. An interview with Respondent 7 reveals how companies operating in natural resources are managed:

“Petroleum is managed by GNPC and mining companies are managed by

the Minerals Commission. GNPC is the Ghana National Petroleum Corporation... When you talk about GNPC controlling petroleum, you are actually looking at companies that are coming into Ghana to do drilling, like Tullow, Kosmos and so on... same for mining. The AngloGolds and then the Goldfields are taken care of by the Minerals Commission”.

As seen above the null hypothesis was accepted. In other words, where the motive is resource-seeking, political factors are generally insignificant. This result is significant because though some types of natural resources were excluded as seen above, the outcome remains consistent with the literature regarding the insignificance of political factors in attracting resource-seeking FDI, due to the scarcity of these resources (Cantwell, *et al.*, 2010). The above is also supported by the fact that Pearson correlation between political factors and other motives were found to be significant. For example the p-value was 0.004 between political factors and strategic asset-seeking and 0.021 for the correlation with market-seeking. The next section discusses another political variable in the form of government incentives and how they influence efficiency-seeking, since incentives generally reduce costs.

7.2.11. Government incentives correlate positively with efficiency-seeking FDI – hypothesis rejected

The analysis confirms there is no significant correlation between companies whose primary objective is efficiency-seeking and tax incentives. This is contrary to Barthel *et al.*, (2011) but consistent with Tuomi (2011) who found that incentives play insignificant role in investment decision of majority of companies. Fowowe (2013) also found that incentives rather have negative effects on FDI in Nigeria. An interview below with Respondent 7 revealed that Ghana provides location incentives where they give certain tax rebate based on the location of the companies – whether they are located in the national capital or 30 kilometres radius of it, whether they are located in the regional capital or in the district:

“It ranges from 25 per cent to 100 per cent income tax write-off. These are

general incentives. The other incentives we have are sector-specific, not country-specific. For example, if you are doing tree cropping, you have 10 years tax holiday. ..Hotels pay 16 per cent irrespective of who the investor is”.

Respondent 7 acknowledged that incentives may not work in all sectors, and are not sufficient in attracting FDI. However, it was also stated that GIPC believes incentives have worked in some industries and the tourism industry was used as an example, and below was the response:

“So in some sectors, in the tourism sector for example it’s worked a lot because if I show you the figures, you will realise the number of hotels that have sprung up in Ghana between 2005 when that particular tourism legislation was introduced and up till now”.

The interview with Respondent 7 revealed that the tourism legislation to offer more incentives was to encourage more investment into the tourism industry. This was because it was realised that tourism and hospitality needed to be a priority area, considering the deplorable state of some of the hotels in the country at the time. In some hotel rooms there were no beds and staff were inefficient, though their charges were still high. The government, through GIPC decided to attract more international named hotels and generally hotels of international standards.

The tourism legislation offered many incentives including import duty exemptions, exemptions from the payment of VAT, and tax holidays, and below is what they believe was the result of these incentives:

“... And as a result, now we can see certain international hotels, chain of hotels. There is Holiday Inn, Hilton is coming up, there is Intercontinental coming up in the Airport area. Kempinski group of hotels, strong in the Middle East – they are also coming just now. And then we have Movenpick. So it’s really impacted”

It was however acknowledged when asked about the impact of incentives in relation to other determinants that businesses in general set up in Ghana for multiple reasons which may or may not include tax incentives.

The above is an indication that GIPC are using specific targeting strategies in investment promotion (Barthel, *et al.*, 2011; Musila and Sigure, 2006; Wint and Williams, 2002). It must however be emphasised that an interview with Respondent 3 confirmed some of the incentives for the industry have been withdrawn since 2012:

“For the hotel industry, they used to (have incentives). They used to offer tax rebate. But that was taken away last year, which is making it slightly harder... Again in Ghana, the government has seen that hotels are making money, so why should the government (continue) to give them rebate to a business that has been successful?”

The stance on the potential of incentives in attracting investment is applied across the government agencies. As recorded from an interview with Respondent 8, other locational incentives are offered to companies which locate in the Free Zone enclave.

..They either locate in the Free zones enclave where they will have lots of tax incentives or set up in an area of their preference, perhaps to be close to source of raw materials”.

Some the incentives to attract companies to invest in the free zones are 100 per cent exemption from duties on imports for production in the free zones for the purpose of exporting the finished product. Also, all eligible companies have 10 years exemption on income tax. After 10 years, income tax will be charged but not more than 8 per cent. Eligible companies are also quarantined from nationalisation and expropriation. Companies also have the choice of operating foreign currency accounts in Ghana, and they can repatriate profits and service foreign loans without any restriction. Respondent 8 also confirmed that there are conditions attached to setting up in the free zones enclave to take advantage of tax incentives. At least 70 per cent of products from companies operating in the free zones must be exported. Companies can sell some of their products in Ghana but only up to 30 per cent. They may choose to export all their products if they want to. These conditions apply to both foreign and local companies in Ghana, and are designed to increase export from Ghana.

From the above, it is overwhelming that the government of Ghana is convinced incentives contribute significantly in attracting some investment, but the results from this research confirm that generally they do not make very significant difference. Though there was increase in the number of hotels in the country after the introduction of the legislation, the location of the hotel chains may have been influenced overwhelmingly by other factors such as demand for hotel services. For example, Respondent 3 confirmed the following:

“We’ve been steadily doing about 82 to 85 per cent occupancy here year on year. The business has been very strong over the four or five years”

Due to the above results, the hypothesis that incentives correlate with efficiency-seeking FDI or indeed UK FDI in Ghana in general has been rejected, and the government has already started withdrawing some of the incentives. The section below discusses the effects of formal institution variables on UK FDI

7.2.12. The Ghanaian formal institutions have positive effect upon UK FDI regardless of the FDI mode – Hypothesis rejected.

The hypothesis was rejected based on the first condition, which is that formal institutions as defined in chapter 4 do not affect UK FDI significantly. Though there is no significant difference between wholly owned subsidiary and the other entry modes in how they were affected by the institutional variables, which would have enabled the second part of the hypothesis to be accepted, the fact that effect of institution is insignificant provides the basis to reject the hypothesis. It must be clarified that institution been defined differently in different studies. The definition may sometimes be extended to include corruption, labour regulations, judicial system, taxation policies, political rights and civil liberties, political stability and property rights and in fact motivation, cognition and behaviours of companies in the creation of wealth (Dunning and Zhang, 2008; Pajunen, 2008). However, in this research most of these variables have been captured under the key political indicators (see table 6.13). The variables under institutions in this research can be found on table 6.14. It is useful to determine to what extent each of the identifiable

institutional variables in a country contributes to FDI. The above hypothesis was rejected. This is consistent with Djokoto (2012), who, with the use of auto regressive distributed lag, suggests that GIPC as an institution is not a significant determinant of FDI in Ghana but only offers a supporting role. It may be argued that some of the surveyed companies perceive GIPC in the same light. Comment Number 7 from the survey was much less complimentary than this in response to a question about the role of GIPC: *“They do nothing”*.

It was therefore decided that the role of GIPC from the perspective of the companies should be explored further through the use of interview. However, from the interviews, there was a good general awareness of the functions of GIPC, though the companies stopped short of confirming them as a significant determinant. Respondent 1 stated the following:

“If you look at the Ghana Investment Promotion Centre, they have all manner of schemes that are geared towards helping people to get easy access to the Ghanaian market if they want to set up in Ghana. One of them is setting up a whole centre. So if you are an investor, you go to GIPC, and it’s like a one-stop shop. They help you go through all your documentation and everything.”

A number of factors may explain why the effect of GIPC may appear not to be significant in attracting FDI. Djokoto (2012) in reference to earlier research by Morisset (2003), states that the effectiveness of investment promotion agencies (IPA) depends on the environment of the country in which they operate, the scope of the activities they have been mandated to undertake and the characteristics of the IPA which afford them ability to achieve success. These three factors are interrelated. For example what would be considered as a success of GIPC is ultimately measured by the remit given them by government, and not necessarily from the perspective of investors. Respondent 7 stated the following in an interview about the responsibility of GIPC:

“GIPC is responsible for the attraction, retention and promotion of foreign direct investment into Ghana. It’s directly placed under the Office of the President in Ghana because of the importance the government attach to investment promotion and attraction”.

It is interesting to observe that when asked about reasons for Ghana's attraction of FDI, the respondent did not highlight any role of GIPC as a determining factor but rather focused more on the economic and political variables:

“Businesses go to the places where they will have the most returns on their money. Contrary to a lot of economic theories about why businesses set up ..., the primary concern of businesses is to be able to make profits. .. And profitability will only come about if the economy in which the business is operating has certain economic indices going in the right direction”.

Respondent 7 went on to highlight some of these factors as the growing GDP, falling inflation and the recent discovery and exploration of oil in Ghana. As seen elsewhere both GDP and inflation are crucial determinants of market-seeking FDI (Seyoum, 2011). It is therefore unsurprising that as the majority of the companies have market-seeking as a dominant motive, these variables are being projected. High inflation for example may be an indication of uncertainty, making pricing and forecasting difficult (Buckley *et al.*, 2007), hence it may be a discouragement to FDI. The results from this interview and the survey are therefore consistent in confirming the role of IPAs as playing a very significant but only in auxiliary capacity in attracting and retaining FDI. This means the effectiveness of GIPC will be based on how successfully they are able to communicate the investment opportunities to different potential investors by highlighting the favourable economic and political conditions in the country. Thus, other factors are more crucial than the role of the IPAs in FDI attraction.

The surveyed companies also disagreed with the potential effect of the formal bilateral relationship between Ghana and the UK in attracting and retaining FDI. Respondent 7 confirmed such a treaty exist with some countries to promote FDI.

“We have a lot of what we call bilateral investment treaties with certain countries...The treaty is that if you are a UK company operating in Ghana, and you pay tax, you don't have to pay it back in your own country on your operations in Ghana...we have double taxation agreement, and generally it is to improve the confidence level of investors, improve the climate for doing business”

Consistent with the effects of tax incentives results discussed above, though

bilateral relations and double taxation agreements offer some respite, investors have not acknowledged the significance of this, as the survey results confirm. However, contrasting the informal ties with the formal institutions, informal institutions (informal ties) 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 have positive or negative effect, 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). It was 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 the Ghanaian to UK goods and services which have become part of their culture, and therefore emphasis is placed on satisfaction from the product or service itself.

It has also been stated elsewhere that the UK companies are still actively investing in the old colonies, including Ghana because of the cultural ties the British established during the colonial times (Milhomme, 2004). Similarly Makino and Tsang (2011) are of the view that historical ties establish institutional framework within 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. Standard Chartered Bank at the time was known in Ghana as the British Bank of West Africa. Therefore though the institutional framework exists which could be exploited as a result of the historical ties between Ghana and the UK, this is not deemed as crucial by the companies surveyed. It would be useful to measure the effects of these ties from the consumer perspective in reference to Acquah (2009) for example which reveals products from the UK are viewed as of superior quality compared to those from emerging markets. It may be that the surveyed companies did not want to admit that they are in an

advantaged or disadvantaged position as a result historical events which ensued between the two countries even before some of the surveyed companies were established. However this is outside the remit of the current research.

Overall majority of the surveyed companies do not find both informal ties and 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 the 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).

Due to the above reasons and as confirmed in this the analysis, the insignificance of institutional variables does not change significantly regardless of the FDI motives. Therefore the null hypothesis "both informal ties and formal institutions do not have significant effect on FDI if the motive is resource-seeking" (H5a) was accepted and the hypothesis "Informal ties (or informal institutions) in Ghana negatively affect UK FDI if the motive is market-seeking" (H5b) was rejected. In relation to H5a, it may additionally be explained by the scarcity of natural resource stance (Cantwell, *et al.*, 2010), which implies that even in unfavourable institutional environment, companies may still ignore the impact since, finding alternative locations may be challenging. 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 as exist 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 (Seyoum, 2011; Pajunen, 2008), hence the essence of country-specific analysis, as employed in this research.

The next section discusses whether the next locational variable, agglomeration has significant effect on FDI in Ghana.

7.2.13. Agglomeration opportunities provided by both UK and non-UK companies in Ghana relate positively to UK inward FDI in Ghana regardless of the FDI motive – hypothesis accepted

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 (Tan and Meyer, 2011; Dunning, 2001). 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 in making the country more attractive, thereby creating a cycle (Ezeoha and Cattaneo, 2012). The presence of other companies also creates what has been called “follow my leader” theory, according to Dunning in reference to earlier research by Knickerbocker (1973) which Dunning admits was one of the earliest attempts to explain the clustering of FDI. Despite various locational incentives to spread the location of companies throughout the ten regions of the country, Table 7.2 created by the author, based on the first and second Quarterly Reports from GIPC (2013a) and the latest population and housing census by Ghana Statistical Service (2012) confirm the majority of all FDI projects concentrate in the Greater Accra region:

Region	No. of Projects in 1st Quarter	Percentage	Estimated Value (Million Dollars)	No. of Projects In 2nd Quarter	Percentage	Estimated Value (Million Dollars)	*Population
Greater Accra	76	79.17	263.92	78	72.22	256.92	3,052,327
Western	6	6.25	15.85	9	8.33	9.35	1,665,207
Ashanti	5	5.21	4.33	8	7.41	2.51	3,417,268
Brong Ahafo	2	2.08	7.60	2	1.85	2.54	1,599,001
Central	2	2.08	1.80	2	1.85	1.47	1,538,091
Volta	2	2.08	1.03	3	2.78	10.71	1,492,538
Upper East	1	1.04	0.15	No projects	0	0	714,096
Upper West	No projects	0	0	1	0.93	0.01	476,574
Northern	No projects	0	0	1	0.93	0.05	1,571,044
Eastern	No projects	0	0	1	0.93	0.41	1,866,709
Total	96	99.99	295.71	108		294.68	

Table 7.2: Cluster of new foreign projects in Ghana in 2013

As stated above, agglomeration potentially improves infrastructure. It is therefore no coincidence that in Ghana infrastructure is concentrated on a few urban areas (Oke, *et al.*, 2014). It must however be emphasised that from the survey results, 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.

The above reveals a gap between what had been found to be significant in other countries but may not necessarily be significant in relation to the UK investor. Furthermore, contrary to Ezeoha and Cattaneo (2012) who found the effects of agglomeration to be insignificant in sub-Saharan Africa, the results here reveal significance. Ezeoha and Cattaneo attributed their findings to the fact that the bulk of the existing FDI in the sub-Saharan region are in the area of natural resources,

which does not rely extensively on agglomeration. Their explanation is consistent with the findings of this research and 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 might otherwise be deterrent may be overlooked (see Cantwell, *et al.*, 2010). As companies operating in the traditional natural resources have been excluded from this current research, it 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 revealed an investment promotion strategy below in an interview, which highlight the perceived effect of the pull factor of existing companies particularly from the same country:

“...Sometimes if we are going to a particular country, maybe, England, ... , we might have to convince some English-based businesses in Ghana to tell their colleagues about their investment experience, business experience in Ghana. It’s easier for your countrymen to convince you than another person”

The above confirms generally the presence of other companies has the possibility of attracting more companies into the country. However, the survey confirms also that UK companies may not entirely be convinced by the mere use companies from UK as the pull factor, but companies in generally, regardless of the country of origin. This is also consistent with research findings elsewhere (Lauthier and Moreaub 2012; Ndikumana and Verick’s 2008). Both studies found that high level of private investment in an area attracts FDI because it indicates to investors that there is a potential for good return on investment. Also, Nyarko *et al.*, (2011) found agglomeration effect and democracy in Ghana to be significant. Furthermore, Harvey and Abor (2009) found that local companies with skilled workers and higher technological capacity attract FDI.

In sum, the above provides overwhelming support for the positive effects of agglomeration, but there was no evidence from this research if it affects any particular entry mode more than the other. The section below discusses whether agglomeration has a significant effect if the motive is strategic asset-seeking, due

to possible appropriation of other company's assets through intentional and somewhat accidental effects of agglomeration (Ta and Meyer, 2011).

7.2.14. The significance level of agglomeration in attracting FDI increases if motive is strategic asset-seeking – Hypothesis accepted

The agglomeration effects have been investigated in the literature (Majocchi and Presutti, 2009; Yehoue, 2009 and Brozzini, 2007 are some examples), and this research has also revealed agglomeration effects on strategic asset-seeking motive. The above has also been accepted in relation to the presence of reputable companies with a p-value of 0.000. This is because acquiring a reputable company, cooperating or co-locating with one has the tendency to enhance a company's brand and offer other benefits. Consistent with Lamin and Livanis (2013), co-location with other companies provides strategic and knowledge resources which could be nurtured to make location, (in this case Ghana) more attractive. Though companies may be able to protect their assets through the use of contracts, it is possible for companies seeking strategic assets to obtain these somewhat by presence in a particular location. According to Tan and Meyer (2011), some form of knowledge may be appropriated by competitors through reverse engineering, movement of personal and business intelligence. The cluster of reputable companies contributes in creating the reputation of the host country. This is because it makes the country more competitive, and as confirmed, many companies look for geographic source of innovation (Majocchi and Presutti, 2009).

It must be emphasised that overall, majority of the companies were not motivated to locate in Ghana because of the presence of reputable companies, as the analysis reveals (see table 6.10). However, when correlated with strategic asset-seeking, there is high level of significance. This is a pointer to the need for IPAs to identify the motives of companies to target in order to present the right policies and communication strategy that would contribute in attracting them to the country. The next section looks at how cost reduction through internalisation relates with entry mode in general.

7.2.15. The need for cost reduction through internalisation positively relates with inward FDI, regardless of FDI mode – hypothesis accepted

With p-value of 0.994, there is no significant difference between the wholly owned companies and the other entry modes in relation to attitude to cost. This may be because majority of the companies who opt for joint venture for example acquire the biggest percentage of ownership, offering nearly as much power as wholly owned subsidiaries. Vodafone acquired 70 per cent ownership of Ghana Telecom, enabling them to rebrand it as Vodafone Ghana. Overall, the internalisation (I) leg scored less mean values, but it does not mean that the Internalisation leg of the OLI is inferior or weaker, as majority of the companies are wholly owned, which is the highest internalisation possible. The above is very unusual because from the literature companies internalise in order to reduce cost attributable to market imperfections (Faeth, 2009; Buckley, 2008; Cleeve, 2008). The relatively weak results may be explained by the perspective from which the internalisation reasons were perceived by the respondents in relation to costs attributable to opportunistic tendencies if the ownership advantages such as brands were not internalised (Feils and Rahman, 2011).

Theoretically, several reasons have been suggested as triggers for internalisation. According to Buckley (2008), there are at least five types of market imperfections which create justification for internalisation. First, where there is a lack of futures markets, companies benefit from internalising interrelated activities in order to reduce any costs to the businesses if the provision of the interrelated services could no longer be guaranteed. It was gathered from interview with Respondent 4 that companies may choose to reduce costs in this regard. The respondent stated that they supply most of their products to the European market through other retail customers in the UK. However, the following was stated in making sure some aspects of the retailing is done by themselves in case the retailers are unable to buy all their produce or if they are unable to transport their products due to industrial action:

“...we are developing the Ghanaian market and are offering a variety of products including different flavours of 100 per cent natural juice to the local market”

The retail of the products became even more relevant to Respondent 4's company because it was felt other aspects of the interrelated activities could be guaranteed:

"...There is all year round supply of pineapple. There is also potential for agricultural development. The country has very enterprising people, and there is the availability of labour".

It may therefore be argued that companies in a similar situation may outsource interrelated activities if the futures could be guaranteed and if it cost less to do so, and internalise if it cost less to do so in order to secure futures and limit uncertainties.

The second theoretical explanation for internalisation according to Buckley (2008) is to be able to manage discriminatory pricing. Companies may forward or backward integrate, for example through acquisition in order to ensure that they are in control of key products or inputs needed for their main business (see Bronzini, 2007). Through this strategy, they are able to control the prices of inputs to enable them to manage the overall cost and to stay competitive. There was no evidence of this in this current research; therefore this will not be discussed further.

The third explanation is when bilateral companies are so strong in their bargaining power against each other that it creates uncertainty. The cost of each sanction against each other sometimes means it would be more prudent for both companies to come together in a form of a merger or takeover. In the same way as the above, there was no evidence of this imperfection; therefore this could not be applied as one of the reasons for the results.

The fourth type of imperfection is when there is a considerable gap between how the buyer and the seller value a product. This may be as a result of for example, the seller having access to knowledge about a product potential that the buyer is not aware of – that is, the buyer has an uncertainty. To eliminate this problem, the seller may acquire the buyer or start a new company to forward integrate.

The final explanation according to Buckley (2008) is to either avoid some tariffs and restriction on capital movement. There was no clear evidence of this but is not

entirely surprising, as the surveyed companies may not want to admit they located in Ghana because of avoidance of tax. This is particularly the case when the GIPC are trying to identify companies who they believe have been illegally avoiding taxes. This is therefore considered as a sensitive issue. For example, there had been reports that some foreign companies have been devising measures to avoid payment of taxes. In this regard, Action Aid (2012) produced a report on SABMiller's tax avoidance titled "Calling Time: Why SABMiller should stop Avoiding Taxes in Africa". This report included quotes from Ghanaians and executives of the company. Though one may argue about the reliability of the report, the interest generated which merited the reaction of the executives, including the Chief Executive contributes in making tax issues sensitive and may not always produce the most accurate result.

Considering the above, though the results do not appear to be overwhelming, the sensitive nature of the data sought may have contributed in under-reporting. The hypothesis was therefore accepted based on the need for companies to avoid costs from imperfection.

7.2.16. Cost reduction through internalisation correlates significantly with efficiency-seeking FDI motive – Hypothesis accepted

Though the results are not overwhelming in terms of the location of companies to reduce costs, there is a strong relationship when efficiency-seeking motive is introduced, with p-value of 0.000. This is in agreement with the discussions in the literature about the motives of internalisation, which could be to achieve efficiency. In this regard, Nisar, *et al.*, (2012) report that choice of entry mode is crucial. They argue that market imperfections may result in assets being undervalued. Also Floyd and Summan (2008) are of the view that internalisation advantage involves choosing the best method to enter a foreign market.

The analysis above on choice of entry mode reveals that the best entry mode as

far as the majority of the UK companies are concerned was the wholly owned subsidiary, which offers the highest level of control available. It may be argued that in some cases using cooperative strategies such as joint venture may reduce cost because of shared assets, liabilities and returns. Market imperfections create a significant degree of uncertainty. It has been suggested by Floyd and Summan (2008), in reference to an earlier research by Williamson (1981) that the Greenfield is the most favourable entry mode due to lower transaction costs and greater certainty, making it a suitable strategy for efficiency-seeking FDI. To this end, it can be concluded that in order to reduce their transaction costs and uncertainty, majority of the surveyed companies chose to internalise. One of the reasons is to reduce the coordination cost between the parent company in the UK and the established business in Ghana. This also emphasises the importance of efficient coordination between the parent companies and the subsidiaries.

Besides, though overall, the need to reduce transportation cost was not significant in the central tendency analysis, there is a strong correlation between the need to reduce international transportation cost and efficiency-seeking motive. Some companies may locate close to the source of raw materials and others may locate close to customers in order to reduce transportation costs. For example, companies involved in the manufacturing of farm equipment may find it cheaper to be near the customers if they can source their industrial inputs and cheaper cost of labour from Ghana for efficient production. Considering the fact that the pound sterling has consistently been stronger than the Ghanaian currency, it becomes cheaper to manufacture in Ghana. This is in consonance with the exchange rate sheltering hypothesis (Nyarko, *et al.*, 2011). They stated that companies from countries whose currency commands a premium (the UK) are advantaged in investing abroad, in the same way as exchange rate depreciation will affect their competitiveness. It must also be emphasised that there was also a strong correlation between the efficiency-seeking motive and cheaper inputs in Ghana such as labour and raw materials.

7.3. Summary

The above chapter discussed the findings of the research and offered explanations on why the hypotheses were accepted or rejected. The results reveal that in agreement with the OLI paradigm, the UK companies surveyed tend to exploit their ownership advantages in Ghana and will continue to do so if the current favourable locational factors could be maintained or improved. Besides, unfavourable factors in the country including infrastructure need to improve. Contrary to theoretical expectations, some variables found significant elsewhere were not found to be significant. In sum, Table 7.3 presents all the hypotheses tested and the results

Hypotheses	Test	Level of Significance	Implication
H1: Ownership Advantages relate positively with UK FDI in Ghana in the form of wholly owned subsidiaries.	T-test	0.031	Hypothesis accepted
H1a: Opportunities for UK companies to acquire strategic assets in Ghana correlates positively with FDI.	Pearson Correlation	0.366	Hypothesis rejected
H2: The relatively less developed physical and financial infrastructure in Ghana discourages UK FDI, regardless of FDI type.	T-test	0.522	Hypothesis accepted
H2a: Infrastructure is likely to be a deterrent to efficiency-seeking companies.	Pearson Correlation	0.000	Hypothesis accepted
H2b: Infrastructure is likely to be a deterrent to market-seeking companies.	Pearson Correlation	0.822	Hypothesis rejected
H3: Market size has a positive and significant relationship with FDI regardless of FDI Mode.	T-test	0.090	Hypothesis accepted
H3a: Market size is significant if FDI motive is market-seeking.	Pearson Correlation	0.822	Hypothesis rejected
H4: There is positive association between political factors and UK FDI in Ghana, regardless of FDI mode.	T-test	0.086	Hypothesis accepted
H4a: The increasingly favourable political factors will have no effect on FDI from the UK if the motive is resource-seeking	Pearson Correlation	0.832	Hypothesis accepted
H4b: Government incentives correlate positively with efficiency seeking FDI.	Pearson Correlation	0.196	Hypothesis rejected
H5: The Ghanaian formal institutions have positive effect upon UK FDI regardless of the FDI mode.	T-test	0.873	Hypothesis rejected
H5a: Both informal ties and formal institutions do not have any effect on FDI if the motive is resource seeking.	Pearson Correlation	0.456	Hypothesis accepted
H5b: Informal ties in Ghana negatively relates with market-seeking UK FDI.	Pearson Correlation	0.117	Hypothesis rejected
H6: Agglomeration opportunities provided by both UK and non-UK Companies in Ghana relate positively to UK inward FDI in Ghana regardless of the FDI motive.	T-test	0.127	Hypothesis accepted
H6a: The significance of agglomeration in attracting FDI increases if motive is strategic asset-seeking.	Pearson Correlation	0.000	Hypothesis accepted
H7: The need for cost reduction through internalisation positively relates with inward FDI regardless of FDI mode	T-test	0.994	Hypothesis accepted
H7a: Cost reduction through internalisation correlate significantly with efficiency-seeking FDI motive	Pearson Correlation	0.000	Hypothesis accepted

Table 7.3: List of hypotheses and results

The next chapter summarises the research and also offers some policy decisions to be taken to make the country more competitive. It also reveals some of the areas recommended for further investigation as a result of the research outcome.

CHAPTER 8: CONCLUSIONS, LIMITATIONS, RECOMMENDATIONS

8.1. INTRODUCTION

The previous chapter discussed the research findings through an integration of both the quantitative and the qualitative data, and re-engagement with the literature. This chapter concludes the study by discussing whether the aims and objectives of the research were met. It presents the key academic contribution made on the determining factors of FDI. It also reveals the implications to practice in relation to UK companies investing or intending to invest in Ghana and also in relation to investment promotion agencies evaluating the key determining factors in attracting and retaining UK FDI. Finally it presents the limitations of the study and suggests areas for further investigation in light of the key issues uncovered in this research.

8.2. Aims and Objectives

This section will demonstrate how the aims and objectives of this research were individually achieved.

8.2.1. Critically investigate the relevant literature on determinants of foreign direct investment in relation to Ghana.

The objective was to critically investigate the determinants of UK FDI in Ghana in order to establish the importance of factors already established theoretically, and how differently or similarly they might impact on the UK investor in Ghana. In the literature review, variables that had been empirically established as significant in other countries were therefore evaluated from the UK companies' perspective to ascertain if they are also determinants of FDI in Ghana. In identifying the

determinants of FDI in Ghana in general in order to confirm which of them might be important to UK companies, extensive literature review was carried out. Though the area of FDI in Ghana is under-researched (Owusu-Antwi, 2013), eighteen journal articles were identified and reviewed, and ten of them were broadly on the determinants and motives of FDI and the remaining eight on the impact of FDI in Ghana. The limited number of previous research on the determinants of FDI in Ghana also justified the need to additionally review the literature on factors that had been found to be significant determinants in other countries (see chapters 3 and 4).

8.2.2. Critically identify the theoretical frameworks for FDI analysis and to ascertain the extent to which the adopted framework could be applied in the context of UK FDI in Ghana.

The extant literature on the determinants of FDI in Ghana, FDI in Africa and FDI in general was examined in order to identify the research gap and design the framework. Based on the evaluation of the key determinants and the theories, the OLI paradigm was adopted and subsequently adapted as sufficiently robust for the purpose of structuring the research. Some theories or frameworks which were identified but were not adopted were the Product Life Cycle Theory, Internalisation Theory, Internationalisation Process Model and Heckscher-Ohlin Theory (see chapter 3).

8.2.3. To propose a framework to explain the interrelationships among OLI variables and motives in relation to FDI in Ghana, and test it through a survey and interviews with UK companies in Ghana

The proposed framework was presented in the analysis and findings chapter, after it was tested with the questionnaire and subsequently, interviews. The framework, which is underpinned by the OLI paradigm, presents the variables UK companies confirm as determining factors in their investment in Ghana. It also reveals the interrelationships between the determining variables and the FDI motives. Some of

the interrelationships are that infrastructure correlates significantly with efficiency-seeking FDI; internalisation (for cost reduction) correlates significantly with efficiency-seeking FDI, strategic asset-seeking correlates significantly with agglomeration opportunities, and ownership advantages relate with UK FDI in Ghana in the form of wholly owned subsidiary.

8.2.4. To provide the Ghana investment promotion agencies with crucial factors in attracting and retaining FDI

This objective was met especially through the analysis and discussion of the locational variables. First, infrastructure is a major concern for the companies regardless of the FDI motive, but particularly important to efficiency-seeking companies. This means efforts must be made to improve infrastructure; and the need to action initiatives for infrastructural improvement need to be a priority in communicating to UK investors in Ghana. Political stability is essential for the surveyed companies, and successes achieved need to be highlighted in the marketing communication to attract FDI. Besides, efforts must be made to ensure that the political stability is maintained. Also, the economic potential rather than current purchasing power is important to the investors, therefore information must be provided on the trend of favourable economic indicators such as the GDP and the gradual decrease of the poverty level in order to appeal more to market-seeking companies, as they are more interested in the market potential. Furthermore, opportunities offered by the extended market of ECOWAS should be highlighted as an advantage, as the size of Ghana's market is small compared to other countries including Nigeria in the economic community. This is because this research revealed that some companies use Ghana as a hub to access other countries. Also successes of current foreign companies in Ghana, regardless of their country of origin should be highlighted in their marketing communication in order to let current and potential companies know what agglomeration opportunities are available, as agglomeration was found to be significant.

8.2.5. To understand the extent to which companies seek strategic assets to support what they already have.

This objective was met, as the results confirm that companies are not generally seeking assets to support what they have. However, overall the presence of other companies has the effect of drawing UK companies to Ghana due to the benefits of agglomeration. Companies creating the agglomeration effect in Ghana do not necessarily have to be UK 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. The result also showed a very strong correlation between agglomeration effects and the strategic asset-seeking motive.

8.2.6. To investigate the relative importance of the ownership advantages.

The sixth objective was to understand the relative importance of the Ownership advantage variables to the surveyed companies, with the view to simplifying the list (Narula, 2010). This objective was met and all ownership advantages variables examined were all found to be important to the UK companies, apart from Research and Development resources, which had the lowest mean score. In effect, the Ownership advantage list could not be reduced, but it was still possible to confirm the relative importance of the variables, which could be used as a foundation for further research.

8.2.7. To understand the extent to which the determinants of FDI vary according to the FDI mode.

From the results, there was no significant difference between how wholly owned subsidiary companies have answered the questions in relation to the determinants of FDI, compared with how other types of companies have answered the questions. The fact that there are no significant differences in the results according to entry mode emphasises how crucial those factors are to the companies in relation to FDI in Ghana.

8.2.8. Overall Aim of the Research

The aim of this study was to investigate the determinants of UK FDI in Ghana to fill knowledge gap in the academic literature. This aim was fully met by targeting only UK companies operating in Ghana with questionnaire, interviews and writing up a case study. The combination of all three methods has now confirmed the determinants of the targeted companies (see section 8.3 for a summary of the academic contribution this study has made). The gap in the literature regarding the determinants of UK FDI in Ghana has therefore been closed, as the aim and the objectives of the research have been fully met.

8.3. Academic Contribution

The importance of FDI to developing and emerging markets has been established in the literature (Owusu-Antwi, *et al.*, 2013; Cleeve, 2012; Hatani, 2009). Governments through IPAs and other government agencies have been tasked to attract and retain FDI, and GIPC and Ghana as a whole are no exceptions. To attract investors into Ghana, the key determining factors to investors need to be studied. These studies may be conducted in a number of ways, with varying results depending upon the variables under consideration and the targeted population.

One of the methods is to investigate the determining factors from the perspective of investors from a single country, as it is believed that investors from the same country may exhibit similar characteristics and therefore provide deeper understanding of variables relevant to targeted investors (Miller, *et al.*, 2008; Manev and Stevenson, 2001). Dunning conducted a similar research in the 1980s on the Japanese FDI in the UK (Dunning, 2009b) and recently Kokouma and Xu (2013) examined the determinants of Chinese FDI to Guinea. However, no such studies had been done in Ghana regarding FDI from a single country, not even from the UK which was the leading source of FDI to Ghana in terms of the value of FDI (GIPC, 2013d). The UK was also until recently the leading source of FDI to Ghana in terms of the number of FDI projects and also has rich historical and

bilateral relationship with the country (Mmieh and Owusu Frimpong, 2004). Furthermore, Ghana remains the third most important destination for UK export in the whole of sub-Saharan Africa (Gov.UK, 2013). In accordance with the Uppsala Internationalisation Model which suggests that with experience companies increase their involvement and control in a foreign market (Johanson and Vahlne, 2009; Cheng, 2008), some of the huge exports have the potential of becoming long-term investment such as wholly owned subsidiary or joint ventures. All the above factors point to the fact Ghana presents a huge FDI destination, especially with its status as transitional or emerging country, depending upon which indicators are used (Chironga, *et al.*, 2011; Kehl, 2007).

In addition to the above investment potential in Ghana, the bilateral as well as the historical relationship between the two countries, successive governments of Ghana have demonstrated the political will to make policy changes to attract FDI due to its huge importance to the country (Badu *et al.*, 2012; Acquah, 2009; Harvey and Abor, 2009; Abor and Harvey, 2008; Owusu-Manu *et al.*, 2008; Boateng, 2004). What was hitherto conspicuously missing in the academic literature was a fresh analysis of the crucial factors affecting investors from one of the most important trade partners, the UK. This is because the literature review highlighted that there was no reviewed evidence or indeed recent insight specifically into determinants of UK FDI in Ghana. As a result, a very significant gap in the academic literature existed until this research was conducted.

The aim of this research was to fill this knowledge gap, and this aim has been met with the recommendations to scholarship below. Most importantly, the framework developed from this research could be adapted or adopted for future research. Furthermore, there is now empirical evidence of how UK companies perceive the key OLI variables discussed in this research, and one can now compare how similar or different they are from research conducted elsewhere. There has also been debate about whether all three components of the OLI paradigm need to be present for FDI to take place and whether OLI paradigm need to be simplified (Moghaddam *et al.*, 2014; Narula, 2010; Omar *et al.*, 2009). This research has

therefore contributed to this debate in the application of this paradigm.

This study proposes a well-rounded theoretical framework that is based on OLI paradigm, to examine the determinants of FDI in Ghana. The findings of this study are pragmatic and theoretically justified, and these findings can further mirror the crucial determinants to Ghanaian agencies who intend to attract UK FDI. The following are the key academic contributions this research has made in the study of the determinants of FDI:

1. Ownership Advantage of UK companies relate with FDI in Ghana in a form of wholly owned subsidiary. Additionally, UK companies are currently not seeking strategic assets to support the assets they already have.

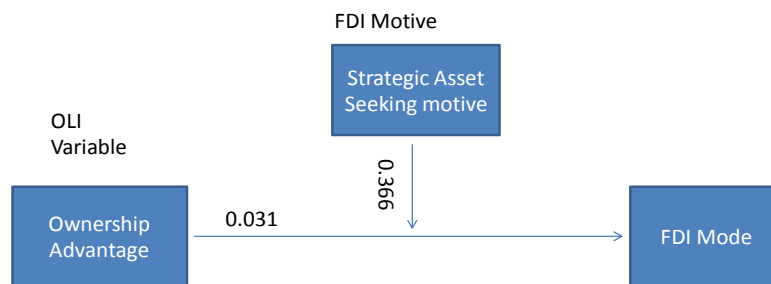


Figure 8.1: Ownership advantage moderated by strategic asset seeking motive

This study found out that ownership advantages relate significantly with wholly owned subsidiary in Ghana which confirms why UK companies prefer wholly owned subsidiary relative to other entry modes. This research has confirmed there is a significant difference between wholly owned subsidiary (0.031) and other entry modes in their relationship with ownership advantages. As the results confirmed that majority of the surveyed companies preferred wholly owned subsidiary, and there is a significant difference, as revealed by the p-value ($p < 0.05$), it can be

stated the more UK companies have ownership advantages, the more they would choose wholly owned subsidiary. The study has also revealed that the choice of wholly owned subsidiary is also permitted in Ghana. Furthermore, as seen from the above, there is no significant relationship between the strategic asset-seeking motive and ownership advantage. The research has therefore confirmed that generally, the companies investing in Ghana must possess or develop their own advantages. Possible reasons may be because the UK companies are convinced they possess the assets required to compete or they do not see any suitable opportunities for asset augmentation in Ghana.

2. Infrastructure is essential for UK FDI in general, particularly those with efficiency-seeking motive.

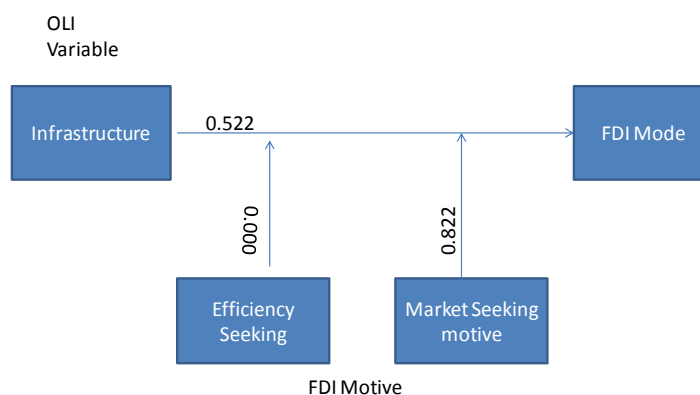


Figure 8.2: Infrastructure moderated by efficiency seeking motive and market seeking motive

Generally the study provided evidence that infrastructure is a crucial factor regardless of the entry mode in Ghana. Nonetheless, to attract efficiency-seeking companies, infrastructure has to be reliable. This research has revealed that the effect of infrastructure on FDI is perceived similarly irrespective of the companies' choice of entry mode. The p-value of 0.522 confirms there is no significant difference between wholly owned companies and other UK companies who did not choose wholly owned entry mode in how they perceive infrastructure. In addition

the research confirmed that there is a very significant correlation between infrastructure and efficiency-seeking motive ($p < 0.05$). Poor infrastructure adds to operating cost and affects efficient operation of businesses (Khadaroo and Seetanah, 2009). So far Ghana has not been as successful in attracting efficiency seeking companies (Barthel, *et al.*, 2011). Therefore this research has brought into focus again the need to develop infrastructure if Ghana wants to attract efficiency-seeking companies. The country has fewer problems regarding market-seeking companies who formed the largest proportion of the companies surveyed. This is because this research revealed that there is no significant correlation between market-seeking motive and infrastructure.

3. Market Size relate positively with UK FDI irrespective of the entry mode choice. Interestingly the research has also revealed an insignificant correlation between market size and the market-seeking motive, as figure 8.3 confirms.

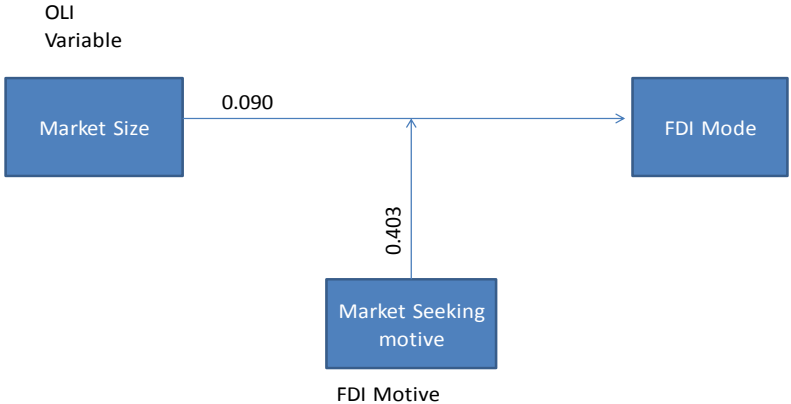


Figure 8.3: Market size moderated by market seeking motive

The research confirmed that the size of the Ghanaian market does not have any influence on the choice of entry mode, as the t-test confirms the insignificant difference of 0.090 between the entry modes. Crucially, though there was no significant relationship between market size and market-seeking motive. Furthermore market potential is more important than market size to the surveyed

companies, and they also appreciate investment opportunities regionalisation presents in Africa. GIPC should therefore advocate for making trading across political boundaries easier, and they should also project this in their marketing campaign, so that the market size of Ghana does not become a liability but an opportunity to exploit. This is because chapter 7 presented examples of UK companies that are using Ghana as a hub to access other countries. Also market size and market potential are important regardless of the entry mode chosen. Therefore the size of the Ghana market is understandably not crucial.

4. Political factors are significant to attracting and retaining companies from the UK, irrespective of the FDI entry mode. Also, as figure 8.4 confirms, there is no significant relation between resource-seeking motive and political factors in general, and between political factors (in this case government tax incentives only) and efficiency-seeking motive.

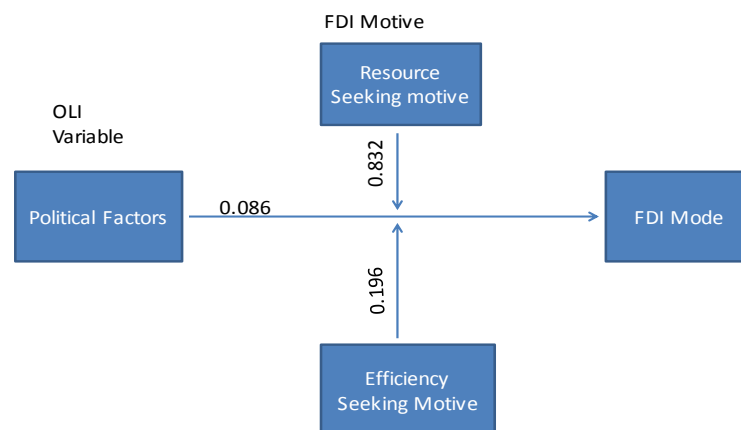


Figure 8.4: Political factors, moderated by resource seeking and efficiency seeking motives

Chapter 7 presented a detailed explanation of why the above correlations were insignificant, and why political factors in general are important to the UK investor regardless of which FDI mode they choose. This research also revealed that the correlation between government tax incentives and efficiency-seeking is not

significant. Therefore in an effort to increase the efficiency-seeking companies to Ghana, which has been a difficulty (Barthel, *et al.*, 2011), the research revealed that the government should focus on other factors such as infrastructure rather than on incentives. Thus, resources committed into incentives could be channelled towards other areas relevant for creating conducive business environment overall, such as infrastructure and developing opportunities for trade across borders. There is also no significant correlation between political factors and the resource-seeking motive. Besides, the country's political situation is a credit that needs to be nurtured and projected in the marketing campaigns of GIPC, as it has been stated as one of the reasons Ghana is used as a hub by some of the companies. Of particular importance is that companies should be allowed to operate with less political interference; and the smooth transition of one government to another and political continuity appeal to the investors surveyed. However, this is not important to resource-seeking companies. It must be stated that, as this research does not include the oil, gas, and mineral extracting companies, the results must be taken with some amount of caution. However, the literature which involved the extraction industries in their analysis also found political factors to be of little importance if any (Cantwell, *et al.*, 2010; Buckley, 2008).

5. This research has confirmed that both formal institutions and informal ties (or informal institutions) are not important determinants for the UK FDI regardless of the motive.

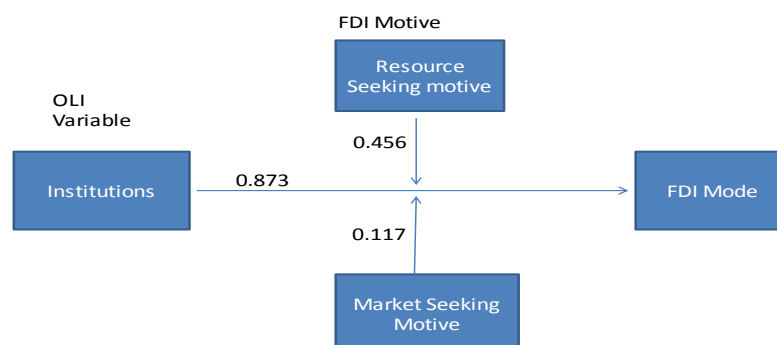


Figure 8.5 Institution, moderated by resource seeking and market seeking motives

The research confirmed in Chapter 6 and 7 why both formal and institutions are not significant to the UK investor. Similarly, the correlation between institution and resource-seeking and also institution and market-seeking motives were not significant. This research considered institution from a different perspective and did not include all rules and regulations in Ghana, therefore the result should be accepted with some level of caution.

6. The result uncovered that agglomeration opportunities were important determinant to UK companies regardless of the country of origin of companies, and irrespective of the choice of entry mode.

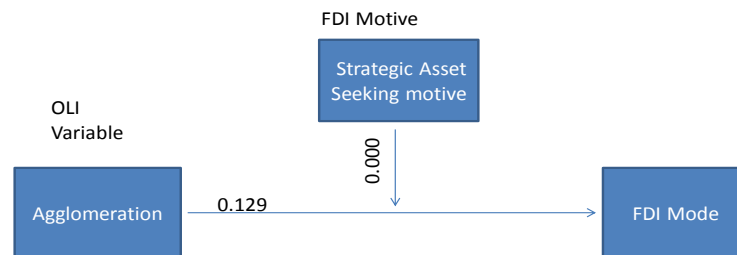


Figure 8.6: Agglomeration moderated by strategic asset seeking motive

The study also found a strong correlation between the strategic asset-seeking motive and agglomeration. This is understandable because companies seeking strategic assets from other companies are likely to locate close to those companies. Figure 8.6 above reveals the findings.

7. The study has established that internalisation to reduce cost relates positively with FDI regardless of mode of entry. It has also confirmed that internalisation for cost reduction purposes also correlates positively with efficiency-seeking motive (see figure 8.7).

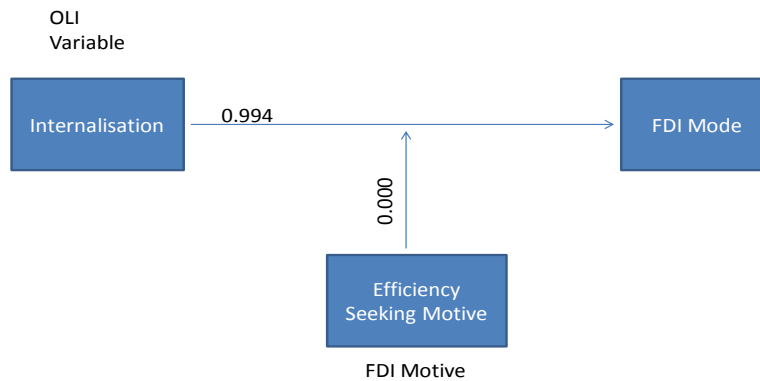


Figure 8.7: Internalisation moderated by efficiency seeking motive

With a very strong correlation, UK companies seeking efficiency are much better off internalising due to imperfections in the Ghanaian market. Furthermore, GIPC is aware of the number of companies that choose wholly owned subsidiary over other cooperative strategies, but the reasons behind this may not be so obvious. Overall, the most important reasons were to protect their brands, products or services and to facilitate coordination with the headquarters.

This section has provided a condensed picture of the fresh contribution this thesis has made to the scholarship in seven main areas as well as ten sub areas. Overall, this research has shone a light onto factors that have been uncovered, and the framework that has been proposed provides a new way of understanding and analysing the determinants of FDI and the motives which moderate them. The study has therefore presented the opportunity for further academic study

The above new knowledge fills the gap in the current FDI literature but the framework could now be tested in other African countries.

8.4. Recommendations for the Industry

This study proposes a complete framework which gives the Ghanaian Government some suggestions about how it should develop and attract UK companies to the country. It also provides UK companies some practical considerations to make in order to be successful in Ghana. This study makes a contribution to practice in two broad ways.

First, UK companies that already invest in Ghana can consolidate their knowledge in terms of what factors other investors from the UK view as crucial. This will enable them to manage their affairs better. For UK companies intending to start businesses in Ghana, it furnishes them with information about the experiences of existing companies, and this may have the pull effect of drawing quality investment into Ghana. It also enables them to know which ownership advantages they need to prioritise to be successful in Ghana.

Second, there has been a call for policy makers in Ghana to continue and reinforce the reform agenda in order to attract more FDI, since the country has a great potential (Barthel, *et al.*, 2011). For IPAs, this research enables them to understand better what factors companies consider as important when deciding where and how to invest. This will enable them to answer this call by formulating policies towards the provision of those crucial factors to make the country more competitive.

The legislation enabling companies to wholly own their business establishment in Ghana should be continued in the foreseeable future as part of the efforts to make the country more attractive to investors in the short term, as it appeals to the UK investor. This contributes to the overall competitiveness of the country as an investment destination in the non-extractive industries.

The government also needs to continue to facilitate the provision and development of physical and technological infrastructure, especially in the form of road and rail

transport, and provision of reliable energy supply. These will improve the efficiency of companies and spread the spillover effects, not just around the capital city of Accra but over a wider geographical area. This research has revealed that some private companies have already initiated provision of their own energy supply. Such companies should be supported or encouraged not just in energy supply but in other forms of infrastructure, considering the unreliable nature of power supply in the country.

The government could also ensure economic stability and review the salary structure of public service workers where there is capacity in order to improve the purchasing power and the market size. This study also has suggested that Integration policies with the rest of African countries, especially within ECOWAS should be continued in order to offer UK companies in Ghana the ease of serving a wider market.

The study also explored the fact that in the long term, the government of Ghana could collaborate with existing companies to explore ways to develop new desirable assets which will attract quality FDI and not just about the quantity of FDI (Osabutey and Debrah, 2012), as from the results, the surveyed companies do not find opportunities for asset-augmenting opportunities attractive enough.

Furthermore, the bilateral relationship between Ghana and the UK and the historical link has no significance in their investment in Ghana regardless of the FDI motive, according to the investors. This is crucial information for GIPC to have, if there are any fears of disadvantage as a result of the colonial past.

Overall, the most important reasons why UK companies chose to internalise were to protect their brands, products or services and to facilitate coordination with the headquarters. This provides GIPC with information regarding what investors' concerns are. Therefore the Ghana government should alleviate those fears with strong institutional and legal framework if they were to encourage other modes of FDI such as joint venture which is believed to potentially facilitate technology transfer in Ghana (Osabutey and Debrah, 2012).

Due to the increasing competition in the country, UK companies should possess or seek to develop their ownership advantages to survive the competition. This may be in the form of unique products for the market. They should also ensure that their brands are nurtured, as currently brand appreciation in the country is in favour of a few countries including the UK. They should also employ experienced managers in key departments of the company to ensure the continuous development of other aspects of the ownership advantages such as the overall human resource development and marketing capability. In dealing with employees, managers should appreciate the cultural difference, in communication and the reward system in order to increase productivity levels. This is because this research has confirmed that catastrophic mistakes could be made, as there is the tendency for some employees to follow instructions literally.

Companies should not only limit their scope to the Ghanaian market but to consider focusing on the ECOWAS economic community, as examples abound in companies that have successfully used Ghana as the hub to access other countries. The relatively stable political climate enables companies to establish in Ghana and gradually explore opportunities in other ECOWAS countries. This will compensate for the small market size of Ghana in relation to population and purchasing power. Companies must develop alternative sources of energy supply, even as a back-up, in order to maintain productivity, as the supply of energy is unreliable.

Companies should exploit agglomeration opportunities offered by other companies in the country. Various cooperative opportunities exist for such purposes, and GIPC provides an indicative list of such companies. Even where companies want to maintain their wholly owned status, they could cooperate with other companies in reducing current deficiencies in the country which affect their business operations. These may include infrastructure and lobbying the government for the provision policies to support investment.

8.5. Limitations and future research

Every research has limitations, and this research is no exception. First, the study focused only on UK companies in the non-extractive industries in Ghana, therefore caution must be applied in generalizing the results for all FDI in Ghana, or indeed for all UK FDI in Ghana due to the different OLI variables for different host and home countries. For example, the inclusion of companies operating in the extractive industries may alter the results due to the difference in their dominant FDI motives.

Second, there are many variables that have been examined elsewhere as contributing to the location and performance of companies. This research does not claim to have exhaustively investigated all these variables and their effect on the UK investors in Ghana or FDI in Ghana in general, due to time and resource limitations. The variables considered have been empirically justified but the effects of other variables on FDI remain fertile ground for future investigation.

Third, this research only focused on UK companies already established in Ghana and has therefore not captured the views of companies which may be looking at Ghana from the outside and who may be considering investment opportunities in Ghana. The views of companies yet to invest in Ghana may help explain why they have not yet invested in Ghana and also establish what else the government of Ghana could do to encourage them to invest in the country.

Fourth, the explanatory approach adopted for the analysis of the qualitative data meant that only responses which added value to the aim and objectives of this research were included. As a result, the qualitative analysis did not accommodate possible exploration of new themes from the interviews, which could have merited further investigation and discussion. Examples include detailed information about the products and services of the companies, their management structure, marketing and promotion strategies and their sources of raising additional capital.

Fifth, only eight interviews were conducted due to time and financial constraints. More interviews involving different staff at different levels of management could potentially have added a new dimension to the study.

As a result of the above limitations six main suggestions for future research have been proposed.

First, a comparative study should be conducted to investigate how the variables identified as relevant to the UK investor in Ghana compare with how the UK investor in other African countries perceive the same variables. This should include a study involving African countries which were British colonies, such as Nigeria, to identify any possible similarities or differences. This will undoubtedly provide further insight into the relevant determining factors in investing in Africa from the UK companies' perspective. Then the research could be extended to compare how the same variables are perceived by UK companies in African countries which were non-British colonies for consolidation of the knowledge on the preferences of the UK companies in locating in Africa, especially in the non-extractive industries.

Second, this research confirmed that more companies are likely to invest in Ghana if investment opportunities are marketed better in the UK. Hence future research should examine the marketing and promotion strategies to adopt to effectively and efficiently attract more companies from the UK.

Third, future research could examine the attitude towards UK products from consumers' perspective as this research uncovered that UK companies do not believe the colonial past has any significant effect on Ghanaians' choice of goods and services. The question regarding whether the companies are simply unaware of any potential advantages or disadvantages which need to be managed still remains unexplored. This is even more important as Acquah (2009) identified differences in attitudes of some African countries towards products from the UK, the USA and Japan in comparison with products from Brazil, China, South Korea and India. Future research questions may specifically focus on whether given the choices between goods and services from the UK and another country, consumers

may be influenced either way in their attitudes towards the market offering from the UK. Furthermore, the future study could investigate whether the colonial legacy has any effect on attitude towards UK products, controlling for other factors such as price and perceived quality. This study will provide key contribution to practice in terms of how companies manage any disadvantages or advantages.

Fourth, the Uppsala Internationalisation Model suggests companies may increase their involvement and control in a country with experience (Johanson and Vahlne, 2009; Cheng, 2008; Pinho, 2007; Zidonis, 2007). Theoretically, therefore, companies currently exporting to Ghana could potentially consider long-term investment strategy in Ghana such as FDI. To increase UK FDI in Ghana, future research must focus on companies currently exporting to Ghana to confirm what factors need to change if they were to change their low involvement strategy to high involvement strategy. As this thesis only focused on the companies already operating in the country, targeting current exporters would be an interesting step in obtaining more insight, this time from potential investors. There is a rich potential from the targeted population, as it has been confirmed that Ghana represents a huge market for UK export, as it is the third biggest recipient of UK export in sub-Saharan Africa (Gov.UK, 2013).

Fifth, as this research only focused on UK companies already in Ghana, future research may target UK companies with overseas presence but are not currently in Ghana to ascertain what could be done or what they expect to see before they would invest in the country.

Finally, infrastructure is concentrated in a few urban areas in Ghana (Oke, *et al.*, 2014), and so are foreign companies concentrated in Accra. It would be interesting to investigate the extent to which the combination of incentives being offered by the Ghana government and developed infrastructure, which this research has confirmed as significant determinant, would attract investors to other parts of the country, all other factors being equal.

This chapter concluded the study by presenting a summary of the main findings, including a discussion of the contribution this study has made to academic research and in practice, including the benefits for current and prospective UK investors, and IPAs in Ghana and in Africa in general. It also acknowledged the limitations of this study and offered areas for future investigation. Therefore, I thereby close the gap in the literature.

8.6. Final Reflections

As a Ghanaian currently living in the UK, I was very enthusiastic about researching on the determinants of UK foreign direct investment in Ghana, due to the potential benefits to both the Ghanaian economy as well as UK companies already in Ghana and those who may be considering investment in Ghana. Most importantly, this research project offered me the opportunity to close an important gap as generally, FDI in Ghana is under researched. However, the excitement and the enthusiasm were met in equal measure with frustration, due to several challenges encountered in the data collection process (see section 5.13).

Overall, however, it has been an eventful and productive journey, knowing that an important research gap has now been closed and further studies may be conducted based on the findings of this research. It is also satisfying that I am in a position to contribute in investment attraction in Ghana through the recommendations and suggestions this research has offered.

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APPENDIX A – CORRELATION RESULTS

APPENDIX A1- CORRELATION BETWEEN INFRASTRUCTURE AND FDI MOTIVES (H2b)

		Transport infrastructure such as road, railways, airport, ports and harbours	Strong stock market in Ghana	Volatility of the local currency	Reliable power supply	Market-seeking	Efficiency-seeking	Resource-seeking	Strategic asset-seeking
Transport infrastructure such as road, railways, airport, ports and harbours	Pearson Correlation	1	.374**	.512**	.434**	-.076	.250*	.105	.039
	Sig. (2-tailed)		.000	.000	.000	.462	.023	.358	.728
	N	100	100	100	100	95	83	78	82
Strong stock market in Ghana	Pearson Correlation	.374**	1	.376**	.025	.032	.389**	.058	-.265*
	Sig. (2-tailed)	.000		.000	.806	.755	.000	.612	.016
	N	100	101	101	101	96	83	78	82
Volatility of the local currency	Pearson Correlation	.512**	.376**	1	.164	-.106	.369**	.105	-.194
	Sig. (2-tailed)	.000	.000		.101	.305	.001	.359	.080
	N	100	101	101	101	96	83	78	82
Reliable power supply	Pearson Correlation	.434**	.025	.164	1	.102	.050	-.014	.156
	Sig. (2-tailed)	.000	.806	.101		.321	.654	.902	.160
	N	100	101	101	101	96	83	78	82
Market-seeking	Pearson Correlation	-.076	.032	-.106	.102	1	-.135	-.279*	.083
	Sig. (2-tailed)	.462	.755	.305	.321		.228	.014	.464
	N	95	96	96	96	96	81	77	80
Efficiency-seeking	Pearson Correlation	.250*	.389**	.369**	.050	-.135	1	.157	-.302**
	Sig. (2-tailed)	.023	.000	.001	.654	.228		.178	.008
	N	83	83	83	83	81	83	75	77
Resource-seeking	Pearson Correlation	.105	.058	.105	-.014	-.279*	.157	1	-.352**
	Sig. (2-tailed)	.358	.612	.359	.902	.014	.178		.002
	N	78	78	78	78	77	75	78	74
Strategic asset-seeking	Pearson Correlation	.039	-.265*	-.194	.156	.083	-.302**	-.352**	1
	Sig. (2-tailed)	.728	.016	.080	.160	.464	.008	.002	
	N	82	82	82	82	80	77	74	82

** . Correlation is significant at the 0.01 level (2-tailed).

* . Correlation is significant at the 0.05 level (2-tailed).

APPENDIX A2 : CORRELATION BETWEEN MARKET SIZE/POTENTIAL AND FDI MOTIVES (H3a)

		Efficiency - seeking	Resource- seeking	Strategic asset- seeking	Purchasin g power	Potential for economic stability	Improving living standard	Access to other African markets
Efficiency seeking	Pearson Correlation	1	.157	-.302**	.049	.087	.085	.136
	Sig. (2-tailed)		.178	.008	.661	.434	.445	.224
	N	83	75	77	83	83	83	82
Resource seeking	Pearson Correlation	.157	1	-.352**	.180	.025	.252*	-.079
	Sig. (2-tailed)	.178		.002	.116	.830	.026	.496
	N	75	78	74	78	78	78	76
Strategic asset- seeking	Pearson Correlation	-.302**	-.352**	1	-.320**	.193	-.176	-.042
	Sig. (2-tailed)	.008	.002		.003	.082	.115	.707
	N	77	74	82	82	82	82	81
purchasing power	Pearson Correlation	.049	.180	-.320**	1	.087	.526**	.101
	Sig. (2-tailed)	.661	.116	.003		.389	.000	.325
	N	83	78	82	99	99	98	97
Potential for economic stability	Pearson Correlation	.087	.025	.193	.087	1	.207*	.300**
	Sig. (2-tailed)	.434	.830	.082	.389		.039	.003
	N	83	78	82	99	101	99	98
Improving living standard	Pearson Correlation	.085	.252*	-.176	.526**	.207*	1	.010
	Sig. (2-tailed)	.445	.026	.115	.000	.039		.923
	N	83	78	82	98	99	99	97
Access to other African markets	Pearson Correlation	.136	-.079	-.042	.101	.300**	.010	1
	Sig. (2-tailed)	.224	.496	.707	.325	.003	.923	
	N	82	76	81	97	98	97	98

** . Correlation is significant at the 0.01 level (2-tailed).

* . Correlation is significant at the 0.05 level (2-tailed).

APPENDIX A3: CORRELATION BETWEEN INDIVIDUAL POLITICAL FACTORS AND THE RESOURCE-SEEKING MOTIVE

		Democracy and freedom of speech	Political stability and continuity	Less Political interference	Regulatory framework in Ghana government to promote FDI	Evidence of rule of law	Effort to control corruption	Incentives to foreign investors	Resource-seeking
Democracy and freedom of speech	Pearson Correlation	1	.433**	.329**	.239*	.472**	.277**	-.104	-.022
	Sig. (2-tailed)		.000	.001	.020	.000	.006	.305	.851
	N	100	100	95	95	97	98	100	77
Political stability and continuity	Pearson Correlation	.433**	1	.351**	.335**	.454**	.169	-.076	-.063
	Sig. (2-tailed)	.000		.000	.001	.000	.095	.447	.581
	N	100	101	96	95	98	99	101	78
Less political interference	Pearson Correlation	.329**	.351**	1	.450**	.340**	.196	.128	-.093
	Sig. (2-tailed)	.001	.000		.000	.001	.058	.213	.423
	N	95	96	96	90	93	94	96	76
Regulatory framework in Ghana to promote FDI	Pearson Correlation	.239*	.335**	.450**	1	.383**	.429**	.314**	-.051
	Sig. (2-tailed)	.020	.001	.000		.000	.000	.002	.670
	N	95	95	90	95	92	93	95	72
Evidence of rule of law	Pearson Correlation	.472**	.454**	.340**	.383**	1	.450**	-.031	.075
	Sig. (2-tailed)	.000	.000	.001	.000		.000	.765	.517
	N	97	98	93	92	98	97	98	76
Effort to control corruption	Pearson Correlation	.277**	.169	.196	.429**	.450**	1	.358**	.039
	Sig. (2-tailed)	.006	.095	.058	.000	.000		.000	.738
	N	98	99	94	93	97	99	99	77
Incentives to foreign investors	Pearson Correlation	-.104	-.076	.128	.314**	-.031	.358**	1	.109
	Sig. (2-tailed)	.305	.447	.213	.002	.765	.000		.342
	N	100	101	96	95	98	99	101	78
Resource-seeking	Pearson Correlation	-.022	-.063	-.093	-.051	.075	.039	.109	1
	Sig. (2-tailed)	.851	.581	.423	.670	.517	.738	.342	
	N	77	78	76	72	76	77	78	78

** . Correlation is significant at the 0.01 level (2-tailed).

* . Correlation is significant at the 0.05 level (2-tailed).

APPENDIX A4: CORRELATION BETWEEN INSTITUTIONS AND FDI MOTIVES (H5a)

		Resource-seeking	Market-seeking	Support of GIPC	Bilateral relationship between Ghana and the UK government	Preference for non-UK goods and services	Preference for UK goods and services
Resource-seeking	Pearson Correlation	1	-.279*	-.026	.151	-.160	.049
	Sig. (2-tailed)		.014	.823	.188	.178	.674
	N	78	77	77	78	73	76
Market-seeking	Pearson Correlation	-.279*	1	-.070	-.046	.051	.189
	Sig. (2-tailed)	.014		.498	.655	.631	.072
	N	77	96	95	96	90	91
Support of GIPC	Pearson Correlation	-.026	-.070	1	.602**	.177	-.043
	Sig. (2-tailed)	.823	.498		.000	.086	.682
	N	77	95	100	100	95	94
Bilateral relationship between Ghana and the UK government	Pearson Correlation	.151	-.046	.602**	1	.067	.063
	Sig. (2-tailed)	.188	.655	.000		.520	.544
	N	78	96	100	101	95	95
Preference for non-UK goods and services	Pearson Correlation	-.160	.051	.177	.067	1	.389**
	Sig. (2-tailed)	.178	.631	.086	.520		.000
	N	73	90	95	95	95	90
Preference for UK goods and services	Pearson Correlation	.049	.189	-.043	.063	.389**	1
	Sig. (2-tailed)	.674	.072	.682	.544	.000	
	N	76	91	94	95	90	95

** . Correlation is significant at the 0.01 level (2-tailed).

APPENDIX A5: CORRELATION BETWEEN AGGLOMERATION FDI MOTIVES (H6a)

		Efficiency-seeking	Resource-seeking	Strategic asset-seeking	Other reputable foreign companies in Ghana	Other UK companies in Ghana	Other companies with assets to complement our own	Other companies could serve as our customers or suppliers
Efficiency-seeking	Pearson Correlation	1	.157	-.302**	-.002	.038	-.104	-.012
	Sig. (2-tailed)		.178	.008	.984	.735	.348	.916
	N	83	75	77	83	81	83	83
Resource-seeking	Pearson Correlation	.157	1	-.352**	-.073	.062	.167	-.006
	Sig. (2-tailed)	.178		.002	.525	.597	.144	.961
	N	75	78	74	78	76	78	78
Strategic asset-seeking	Pearson Correlation	-.302**	-.352**	1	-.304**	-.145	-.116	.044
	Sig. (2-tailed)	.008	.002		.006	.196	.299	.692
	N	77	74	82	82	81	82	82
Other reputable foreign companies in Ghana	Pearson Correlation	-.002	-.073	-.304**	1	.462**	.259**	.154
	Sig. (2-tailed)	.984	.525	.006		.000	.009	.124
	N	83	78	82	101	99	101	101
Other UK companies in Ghana	Pearson Correlation	.038	.062	-.145	.462**	1	.381**	.360**
	Sig. (2-tailed)	.735	.597	.196	.000		.000	.000
	N	81	76	81	99	99	99	99
Other companies in Ghana with assets to complement our own	Pearson Correlation	-.104	.167	-.116	.259**	.381**	1	.315**
	Sig. (2-tailed)	.348	.144	.299	.009	.000		.001
	N	83	78	82	101	99	101	101
Other companies that could serve as our customers or suppliers	Pearson Correlation	-.012	-.006	.044	.154	.360**	.315**	1
	Sig. (2-tailed)	.916	.961	.692	.124	.000	.001	
	N	83	78	82	101	99	101	101

** . Correlation is significant at the 0.01 level (2-tailed).

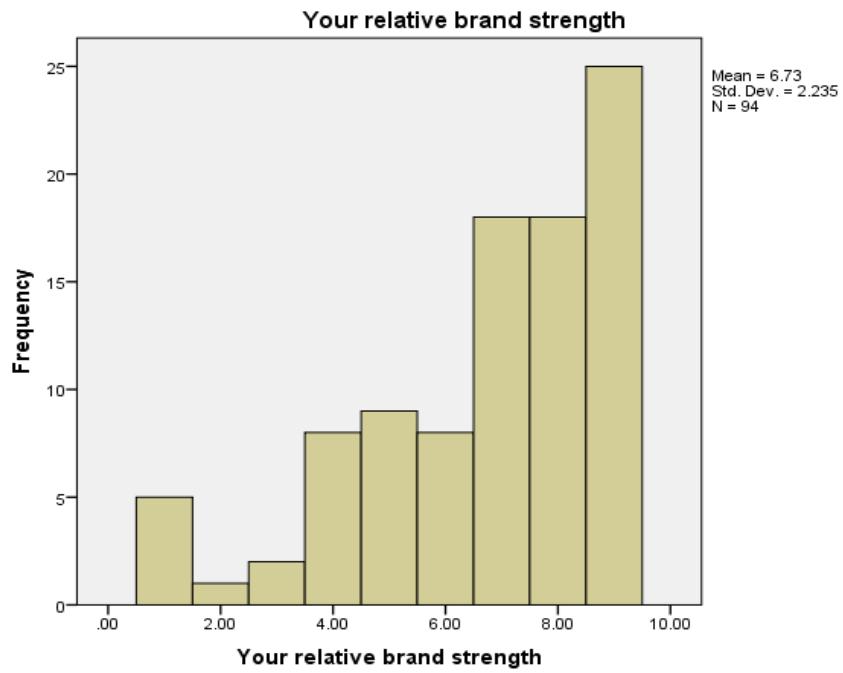
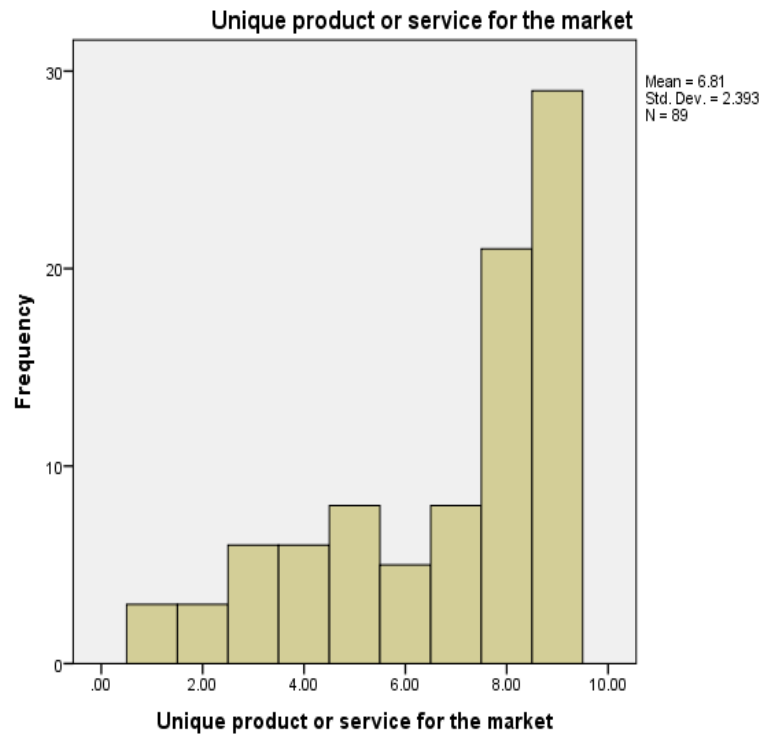
APPENDIX A6: CORRELATION BETWEEN INTERNALISATION FACTORS AND FDI MOTIVES

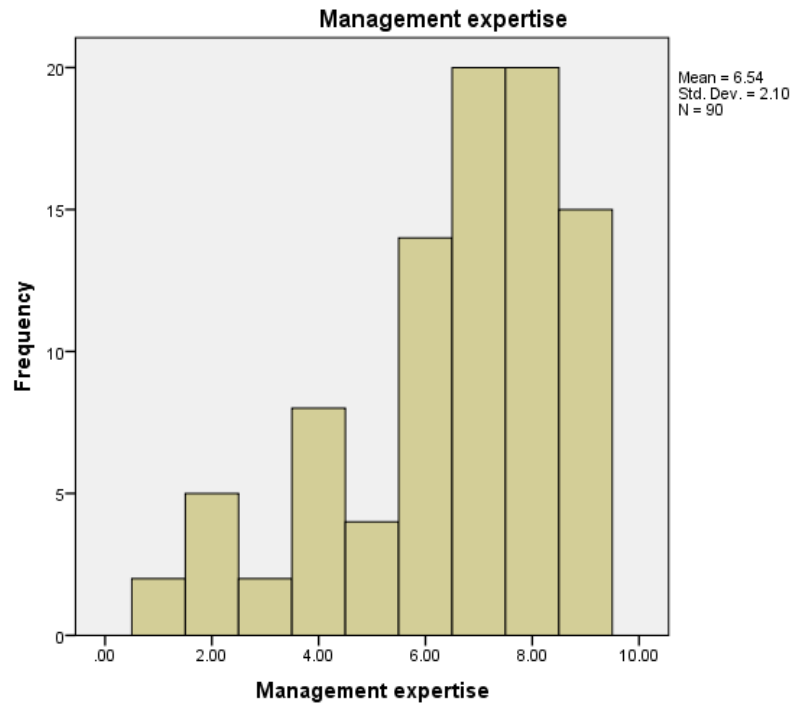
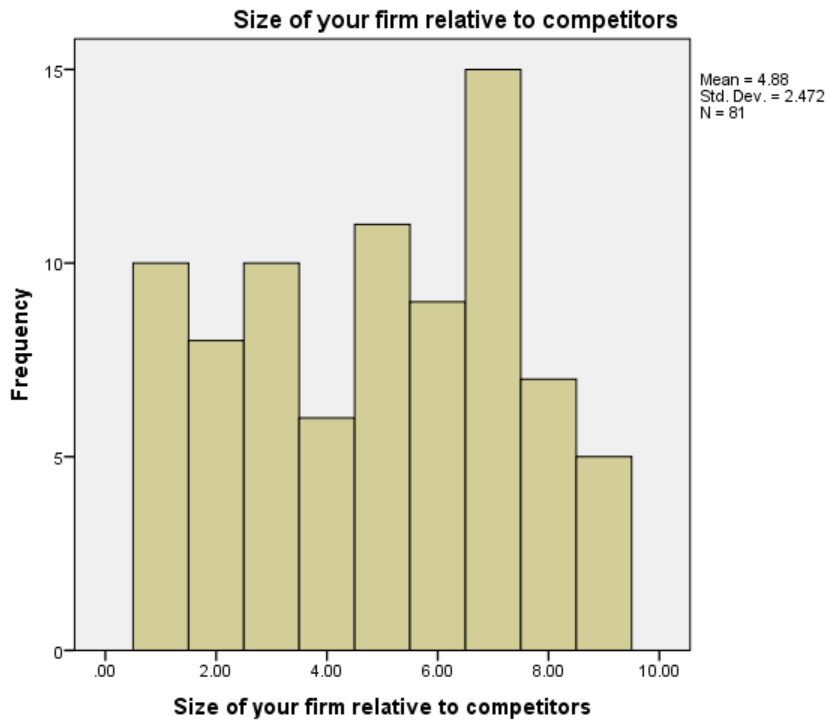
		Efficiency-seeking	To access raw materials	Strategic asset-seeking	the cost of Cost of coordinating investment with the parent company	Cost for not having control over our products, service or brand	To reduce international transport and communication costs	Availability of low cost inputs	Low cost of land
Efficiency-seeking	Pearson Correlation	1	.157	-.302**	.308**	.138	.358**	.455**	.350**
	Sig. (2-tailed)		.178	.008	.005	.218	.001	.000	.001
	N	83	75	77	81	81	81	80	80
To access raw materials	Pearson Correlation	.157	1	-.352**	-.087	-.011	-.170	.410**	.385**
	Sig. (2-tailed)	.178		.002	.454	.922	.143	.000	.001
	N	75	78	74	76	76	76	75	75
Strategic asset-seeking	Pearson Correlation	-.302**	-.352**	1	-.309**	.026	-.169	-.310**	-.128
	Sig. (2-tailed)	.008	.002		.005	.820	.134	.005	.260
	N	77	74	82	80	80	80	79	79
Cost of coordinating investment with the parent company	Pearson Correlation	.308**	-.087	-.309**	1	.427**	.532**	.380**	.368**
	Sig. (2-tailed)	.005	.454	.005		.000	.000	.000	.000
	N	81	76	80	99	99	98	98	97
Cost for not having control over our products, service or brand	Pearson Correlation	.138	-.011	.026	.427**	1	.327**	.310**	.448**
	Sig. (2-tailed)	.218	.922	.820	.000		.001	.002	.000
	N	81	76	80	99	99	98	98	97
To reduce international transport and communication costs	Pearson Correlation	.358**	-.170	-.169	.532**	.327**	1	.407**	.327**
	Sig. (2-tailed)	.001	.143	.134	.000	.001		.000	.001
	N	81	76	80	98	98	98	97	96
Availability of low cost inputs	Pearson Correlation	.455**	.410**	-.310**	.380**	.310**	.407**	1	.735**
	Sig. (2-tailed)	.000	.000	.005	.000	.002	.000		.000
	N	80	75	79	98	98	97	98	96
Low cost of land	Pearson Correlation	.350**	.385**	-.128	.368**	.448**	.327**	.735**	1
	Sig. (2-tailed)	.001	.001	.260	.000	.000	.001	.000	
	N	80	75	79	97	97	96	96	97

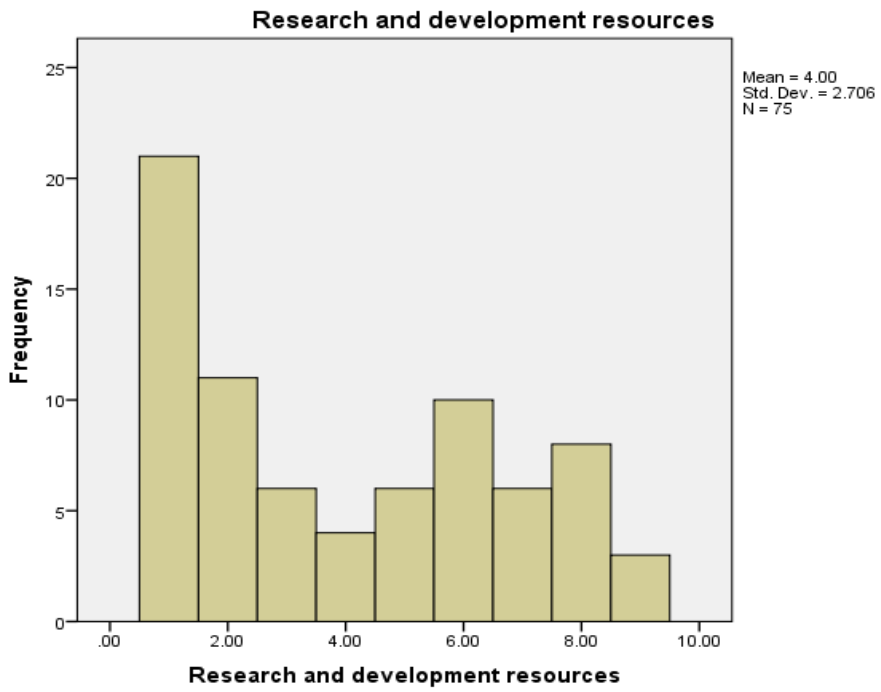
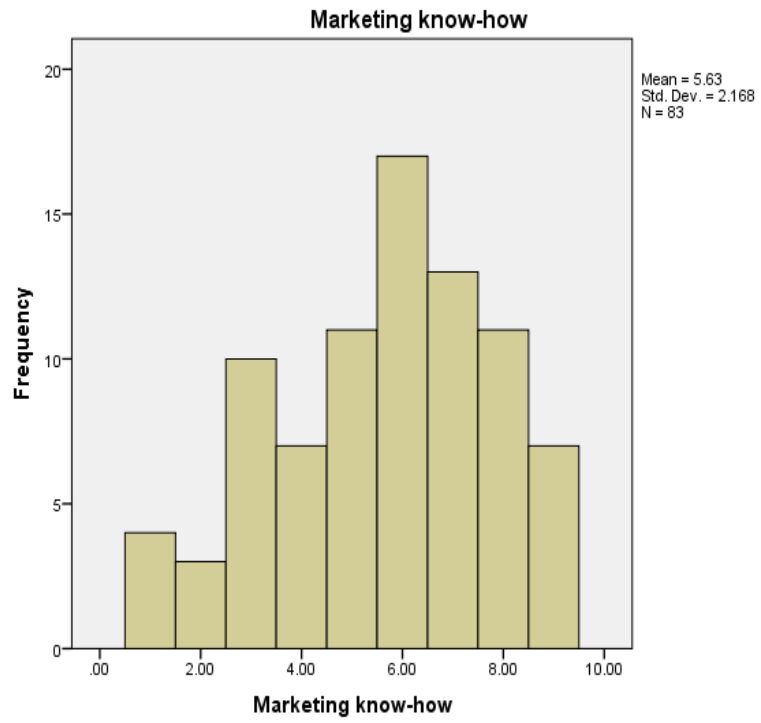
** . Correlation is significant at the 0.01 level (2-tailed).

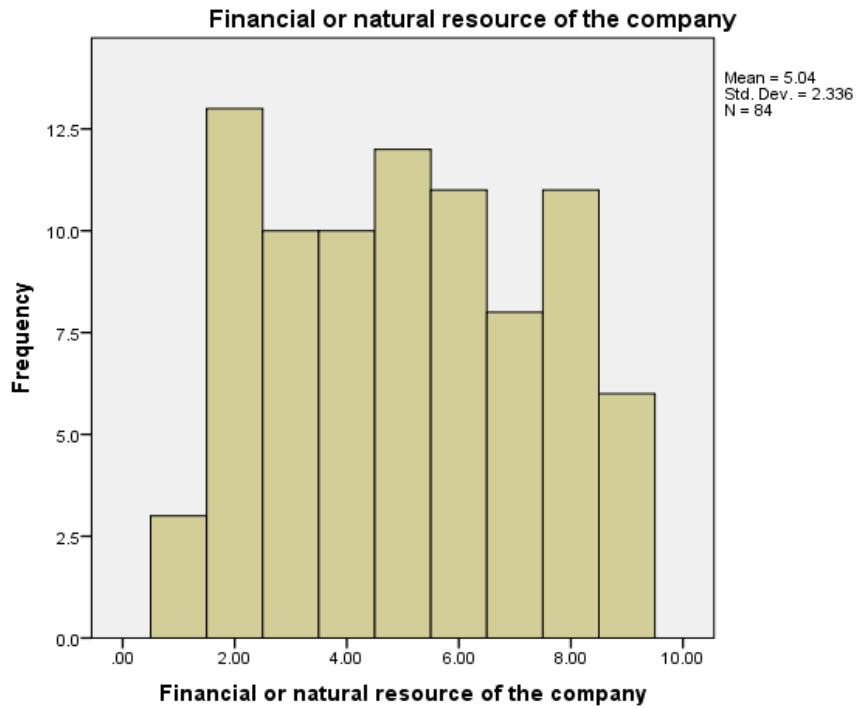
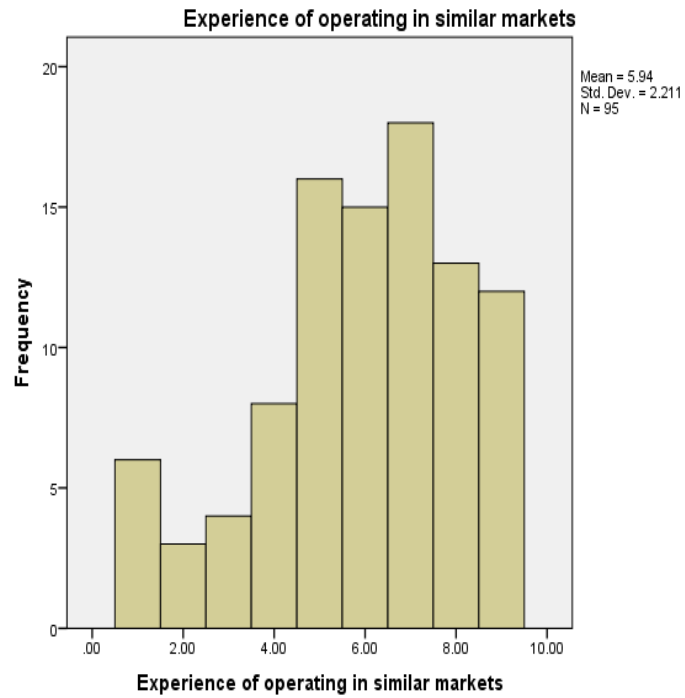
APPENDIX B

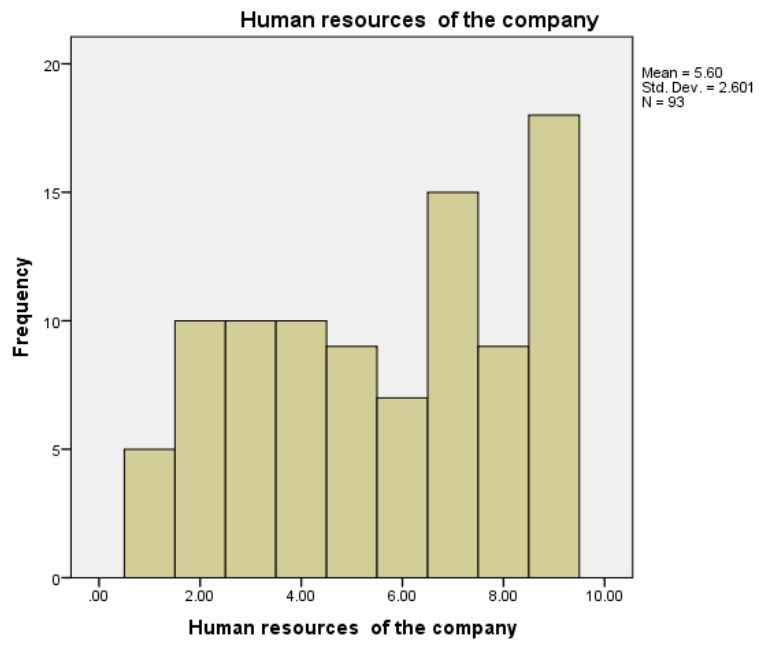
APPENDIX B – HISTOGRAMS FOR OWNERSHIP ADVANTAGE (H1, H1b)











APPENDIX C (H1)

Group Statistics

	Please tick up to three of the following to specify your company's main mode of entry to Ghana	N	Mean	Std. Deviation	Std. Error Mean
ownership Adv	Wholly owned subsidiary	51	47.9020	6.31587	.88440
	Other	14	56.5000	13.04873	3.48742

Independent Samples Test

Ownership Advantage	Levene's Test for Equality of Variances		t-test for Equality of Means						
	F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference	
								Lower	Upper
Equal variances assumed	36.244	.000	-3.487	63	.001	-8.59804	2.46590	13.52575	-3.67033
Equal variances not assumed			-2.390	14.710	.031	-8.59804	3.59781	16.27978	-.91630

ANOVA

ownership Advantage

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	812.052	1	812.052	12.158	.001
Within Groups	4208.010	63	66.794		
Total	5020.062	64			

APPENDIX D (H2)

Group Statistics

Please tick up to three of the following to specify your company's main mode of entry to Ghana		N	Mean	Std. Deviation	Std. Error Mean
Infrastructure	Wholly owned subsidiary	76	14.7368	3.23880	.37152
	Other	24	15.2083	2.75016	.56138

Independent Samples Test

	Levene's Test for Equality of Variances		t-test for Equality of Means						
	F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference	
								Lower	Upper
Infrastructure	.243	.623	-.643	98	.522	-.47149	.73311	-1.92632	.98334
Infrastructure			-.700	44.916	.487	-.47149	.67318	-1.82741	.88442

APPENDIX E (H3)

Group Statistics

	Please tick up to three of the following to specify your company's main mode of entry to Ghana	N	Mean	Std. Deviation	Std. Error Mean
market size	Other	22	15.3636	2.21565	.47238
	Wholly owned subsidiary	74	14.2973	2.65211	.30830

Independent Samples Test

market size	Levene's Test for Equality of Variances		t-test for Equality of Means						
	F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference	
								Lower	Upper
Equal variances assumed	1.041	.310	1.715	94	.090	1.06634	.62191	-.16848	2.30116
Equal variances not assumed			1.890	40.583	.066	1.06634	.56408	-.07321	2.20589

APPENDIX F (H4)

Group Statistics

Please tick up to three of the following to specify your company's main mode of entry to Ghana		N	Mean	Std. Deviation	Std. Error Mean
Political	Other	21	28.0000	1.97484	.43095
	Wholly owned subsidiary	65	26.7538	4.60988	.57178

Independent Samples Test

Political Factors	Levene's Test for Equality of Variances		t-test for Equality of Means						
	F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference	
								Lower	Upper
Equal variances assumed	11.118	.001	1.200	84	.234	1.24615	1.03856	-0.81914	3.31145
Equal variances not assumed			1.740	77.420	.086	1.24615	.71600	-0.17946	2.67176

APPENDIX G (H5)

Group Statistics

		Please tick up to three of the following to specify your company's main mode of entry to Ghana	N	Mean	Std. Deviation	Std. Error Mean
formal Institution	Other		24	5.5833	1.86307	.38030
	Wholly owned subsidiary		76	5.6579	2.03012	.23287

Independent Samples Test

		Levene's Test for Equality of Variances		t-test for Equality of Means						
		F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference	
									Lower	Upper
formal Institution	Equal variances assumed	.077	.782	-.160	98	.873	-.07456	.46646	-1.00024	.85111
	Equal variances not assumed			-.167	41.685	.868	-.07456	.44593	-.97469	.82557

APPENDIX H (H6)

Group Statistics

	Please tick up to three of the following to specify your company's main mode of entry to Ghana	N	Mean	Std. Deviation	Std. Error Mean
Agglomeration	Wholly owned subsidiary	75	5.7200	1.39070	.16058
	Other	24	6.2083	1.25036	.25523

Independent Samples Test

Agglomeration	Levene's Test for Equality of Variances		t-test for Equality of Means						
	F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference	
								Lower	Upper
Equal variances assumed	.545	.462	-1.532	97	.129	-.48833	.31865	-1.12077	.14410
Equal variances not assumed			-1.619	42.733	.113	-.48833	.30154	-1.09657	.11990

APPENDIX I (H7)

Group Statistics

	Please tick up to three of the following to specify your company's main mode of entry to Ghana	N	Mean	Std. Deviation	Std. Error Mean
Internalisation	Other	22	19.2273	5.44174	1.16018
	Wholly owned subsidiary	72	19.2361	4.74562	.55928

Independent Samples Test

Internalisation	Levene's Test for Equality of Variances		t-test for Equality of Means						
	F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference	
								Lower	Upper
Equal variances assumed	.401	.528	-.007	92	.994	-.00884	1.19688	-2.38595	2.36828
Equal variances not assumed			-.007	31.393	.995	-.00884	1.28795	-2.63430	2.61662

APPENDIX J: QUESTIONNAIRE

This brief questionnaire will only take about fifteen minutes to complete. It is designed to gather information about attracting and retaining UK investment in Ghana. The survey does not ask for the name of your company or your personal details

To answer the questionnaire you will need to tick the relevant rating scale. As your opinion would greatly enhance the success of this study, please feel free to make comments in the Comments section provided at the end of the questionnaire.

The information supplied in this questionnaire will be kept in the strictest confidence and will only be used for the purposes of academic study. Your contact details will also not be given to any third parties.

If your company would be interested in a summary of the research findings, please supply your email address in the last part of this questionnaire.

Thank you for your cooperation and support. Please feel free to contact me should you need further information about this research.

Collins Osei
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The Business School
Edinburgh Napier University
Edinburgh EH14 1DJ
Tel. 0131 455 4524
Email. c.osei@napier.ac.uk

SECTION 1

On a scale of 1 to 9, where 9 is the most important, please rank the following factors in the order of how they contribute in your decision to invest in Ghana. If a factor did not contribute in any way, please leave blank.

- a. Unique product or service for the market { }
- b. The relative strength of your brand { }
- c. Size of your firm relative to competitors { }
- d. Management expertise { }
- e. Marketing know-how { }
- f. Research and development resources { }
- g. Experience of operating in similar markets { }
- h. Financial or natural resource of the company { }
- i. Human resources of the company { }

2. Please tick as appropriate to confirm whether you agree to this statement:

My company opened a subsidiary in Ghana because there were groups of companies in the country we could cooperate with

- a. Strongly Agree { }
- b. Agree { }
- c. Neither Agree or Disagree { }
- d. Disagree { }
- e. Strongly Disagree { }

- | | | | | | |
|---|---|---|---|---|---|
| a. Democracy and freedom of speech in the country | 1 | 2 | 3 | 4 | 5 |
| b. Relative political stability | 1 | 2 | 3 | 4 | 5 |
| c. Company's ability to work without major political interference | | | | | |
| | 1 | 2 | 3 | 4 | 5 |
| d. Regulatory framework provided by the Ghana government to promote foreign direct investment | 1 | 2 | 3 | 4 | 5 |
| e. Evidence of rule of law in the country | 1 | 2 | 3 | 4 | 5 |
| f. Government effort to control corruption in the country | | | | | |
| | 1 | 2 | 3 | 4 | 5 |
| g. Government incentives to foreign investors | | | | | |
| | 1 | 2 | 3 | 4 | 5 |

7. On a scale of 1 to 5 where 1 is strongly disagree and 5 strongly agree how do you rate the following statements in relation to your investment in Ghana

- | | | | | | |
|---|---|---|---|---|---|
| a. We believe more UK companies are likely to invest in Ghana if investment opportunities are marketed better. | 1 | 2 | 3 | 4 | 5 |
| b. We invest in Ghana because of the support of institutions such as the Ghana Investment Promotion Council. | 1 | 2 | 3 | 4 | 5 |
| c. The bilateral relationship between Ghana and the UK government to promote investment contribute in our decision to invest in Ghana | | | | | |
| | 1 | 2 | 3 | 4 | 5 |

8. We believe that the colonial past has no influence on Ghanaian consumers to:

- | | | | | | |
|-------------------------------------|---|---|---|---|---|
| a. prefer non-UK goods and services | 1 | 2 | 3 | 4 | 5 |
| b. prefer UK goods and services | 1 | 2 | 3 | 4 | 5 |

9. Please state whether you agree or disagree with the following statement in relation to your investment in Ghana:

We located in Ghana because:

- | | | | | | |
|--|--|--|--|--|--|
| a. there were other reputable foreign companies located in the country | | | | | |
|--|--|--|--|--|--|

- i. Yes { }
- ii. No { }
- b. there were other UK companies located in the country
 - i. Yes { }
 - ii. No { }
- c. we identified firms already located in the country that had assets or expertise to complement our own
 - i. Yes { }
 - ii. No { }
- d. we identified other companies already located in the country that could serve as our customers or suppliers
 - i. Yes { }
 - ii. No { }

SECTION 3:

Please indicate the extent to which you agree to the following statements, on a scale of 1 to 5, where 1 is strongly disagree and 5 is strongly agree:

10. We chose to establish a subsidiary in Ghana rather than use other forms of entry because:
- a. the cost of coordinating investment with the parent company in the UK would have been higher

1	2	3	4	5
---	---	---	---	---
 - b. the cost to our business would have been higher if we did not have control over our products, service or brand

1	2	3	4	5
---	---	---	---	---
 - c. we wanted to reduce our international transport and communication costs

1	2	3	4	5
---	---	---	---	---
 - d. of availability of low cost inputs including raw materials and labour

1	2	3	4	5
---	---	---	---	---
 - e. of the availability and low cost of land

1	2	3	4	5
---	---	---	---	---
 - f. there were no suitable companies to offer our products and services in Ghana

1	2	3	4	5
---	---	---	---	---

SECTION 4: GENERAL INFORMATION

11. Please provide the following information:

- a. Which of the following describes your job title?
 - i. Chief Executive Officer { }
 - ii. General Manager { }
 - iii. Finance Manager { }
 - iv. Marketing Manager { }
 - v. Communications/Public Relations Manager { }
 - vi. Other (please specify).....

12. Regarding your company's or companies' activities in Ghana, please provide the following information:

- a. Which of the following describes your average turnover over the past three years in Ghana?
 - i. More than 2 billion pounds sterling { }
 - ii. Between 1 billion 1.999 billion pounds sterling { }
 - iii. Between 500 million and 0.999 billion pounds sterling { }
 - iv. Between 100 million and 499 million pounds sterling { }
 - v. Between 50 million and 99 million pounds sterling { }
 - vi. Between 1 million and 49 million pounds sterling { }
 - vii. Under 1 million pounds { }

- b. Number of years your company has been in operation in Ghana
 - i. More than 50 years { }
 - ii. Between 20 and 49 years { }
 - iii. Between 10 and 19 years { }
 - iv. Between 5 and 9 years { }
 - v. Between 2 and 5 years { }
 - vi. Less than 2 years { }

- c. Approximately how many fulltime equivalent of employees do you have in Ghana?
- i. Over 500 { }
 - ii. Between 250 and 499 { }
 - iii. Between 100 and 249 { }
 - iv. Between 50 and 99 { }
 - v. Under 50 { }

d. In which Industry sector (s) is your company classified?

- i. service { }
- ii. Manufacturing { }
- iii. Both { }
- iv. Other (Please specify)

13. Please specify up to three main sectors you operate in Ghana by writing 1, 2 or 3 against the appropriate sector. 3 means the dominant sector, 2 is the secondary sector and 1 is the other sector.

Industry Sector		Industry Sector	
Agriculture and agro-processing		Energy	
Financial Services		Information/Communication Technology	
Infrastructure		Textiles and garments	
Tourism and hospitality		Education	
Healthcare		Consultancy/training	
Equipment		General Retail	
Petroleum and gas		Other (please state)	

14. Please tick up to three of the following to specify your company's main mode of entry to Ghana.

- a) Wholly owned subsidiary { }
- b) Joint venture { }

- c) Franchising { }
- d) Exporting { }
- e) Licensing { }
- F) Contract manufacturing { }
- e) Other (please specify)
..... { }

Comments

Please leave any additional comments you have about foreign direct investment in Ghana.

Thank you for your participating in this research.

Please check through the questionnaire to ensure you have completed all applicable sections.

What next?

Please provide your email address here if you would be interested in a copy of the report, summarising the finding of this study

Be assured that your contact details will not be used for any other purposes or distributed to third parties.

Please return the questionnaire to the person who delivered it to you or email it to me at c.osei@napier.ac.uk.

Thank you for your assistance

APPENDIX K: INTERVIEW GUIDE

A. Interview Guide for Companies

26/Mar/2013

Dear Sir/Madam,

I recently asked a market researcher to drop a questionnaire from Edinburgh Napier University and to pick it up for me. I will be coming over to Ghana between 15th April and 25th April, and I would be grateful if I could make an appointment to speak to any member of staff about your company and investment in Ghana. This interview will take just ten minutes, and it is only to catch any relevant information I may have missed in the design of my questionnaire and any further explanation on my initial findings. I would be very grateful if you could confirm what day and time would be suitable for this exercise. Below are all the questions I will be asking if I am given this opportunity. The website below confirms my identity, as it has a list of some of my publications, and also my photo. You may decline to answer any question you feel is too sensitive.

1. Could you briefly tell me about your organisation? How did it start in Ghana? What are your main activities or services?
2. Why would an organisation in your industry want to invest or start a business in Ghana rather than in any of the other West African countries?
3. What important reasons would stop you operating in Ghana?
4. What could the government of Ghana do to make you more profitable in Ghana?
5. What could the government of UK do to make you more profitable in Ghana?
6. Would you recommend investment in Ghana to any other company? Why?
7. Are you aware of any strategies being used by Ghana Government agencies to attract and retain investment from the UK? What is the name of this agency, and what strategies do they use that you are aware of?
8. Before entering the country, did you or your company have experience in similar markets? How important was this experience in your success in Ghana?

9. Do you have anything to add in terms of Ghana's position to attract and retain investment from abroad? Do you have anything to add in terms of your investment in Ghana and what motivates you to invest in the country?

Thank you for your assistance.

Collins Osei

The Business School

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<http://www.napier.ac.uk/faculties/business/staff/Pages/CollinsOsei.aspx>

B. Interview Guide for the Ministry of Trade and Industry in Ghana, and the Ghana Investment Promotion Centre (GIPC)

26/Mar/2013

Dear Sir,

I am conducting research for my PhD at Edinburgh Napier University, and would be grateful if you could assist me with an interview. I will be in Ghana between 15th April and 25th April for this exercise and will be available any time at your convenience. Below are all the questions I will be asking if I am given this opportunity. The website below confirms my identity, as it has a list of some of my publications, and also my photo. You may decline to answer any question you feel is too sensitive.

1. Can you please tell me about your agency/or ministry? How did it start? What services do you offer foreign companies?
2. What do you think have been the reasons why Ghana is attracting a lot of foreign investment?
3. What strategies do you use to attract foreign investment in general?
4. What strategies do you use to attract investment from UK?
5. Does your strategy involve targeting investment from specific countries?
6. Does your strategy involve targeting specific companies?
7. Does your strategy involve seeking investment in specific industry sectors?
8. What are the key sectors that could benefit from foreign or UK investment?
9. What roles does the Ghana Embassy in UK play in attracting UK investment in Ghana?
10. Do you have anything to add in terms of Ghana's position to attract and retain investment from the UK, and the role you play?

Kind regards

Collins Osei

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<http://www.napier.ac.uk/faculties/business/staff/Pages/CollinsOsei.aspx>

APPENDIX L – CASE STUDY

UK FDI in Emerging African Markets: a Case of Blue Skies Holdings Limited

Introduction

The importance of emerging markets in trade and investment cannot be overemphasised (Chelekis & Mudambi, 2010). As a result, multinationals from both developed and developing countries with the right resources have been investing through different kinds of entry modes in these markets. As a consequence of this, there is a very rich body of literature devoted to this area of research (Yaprak and Karademir, 2010). This includes research on the benefits of foreign direct investment (FDI) to host and home countries (Ferretti & Parmentola, 2010; Adams, 2009; Hatani, 2009; Driffield & Love, 2007). It is therefore not surprising that many countries are making efforts and policy changes to either attract FDI or encourage outward FDI (Campos & Kinoshita, 2010). One of the perspectives from which FDI in emerging markets could be considered is the flow of investment from developed countries or the North to emerging countries or the south, as highlighted by Demirbag, *et al.*, (2007). It is from perspective that this research explores UK involvement in emerging African markets such as Ghana, South Africa and Egypt.

An exploration of current UK investment in Africa is very significant because apart from it being a potential source of foreign capital for the recipient countries, there appear to be a new dispensation and debate about whether the UK is still considered as a viable investment partner, compared with emerging powerhouses such as China and India (Taylor & Xiao, 2009; Mawdsley, 2008). This debate has arisen because it is believed that the country has lost interest in Africa after the end of the colonial rule. Besides, any relationship they still have with African countries is either to enhance their reputation or support their fight against global terrorism (Mawdsley, 2008). Foster (2006) for example, reported that there were questions regarding whether Barclays Bank Plc was relevant to the African renaissance, and whether they were not a remnant of the British Empire. This was prior to their

acquisition of majority stake in South Africa's Absa. The purpose of this research is therefore to examine the degree of involvement of UK FDI in emerging African markets. This will also uncover strategies being used to compete as well as ameliorate the stigmatisation resulted from colonialism, neo-colonialism and general disadvantages of foreignness. The study uses the case of Blue Skies Holding Limited, (hereafter referred to as Blue Skies), a relatively young but very successful company from the UK. Below is a review of the literature to highlight the theoretical underpinnings in order to contextualise the study.

Literature Review

A great deal of literature exists which focuses on FDI. One of the streams focuses on theory development to explain philosophical considerations for outward and inward FDI (Dunning, 2009, 2000 & 1995; Rugman & Verbeke, 2008; Buckley, 2008; Dunning & Lundan, 2008; Buckley, *et al.*, 2007; Dunning & Bansal, 1997). For example, Dunning and Pitelis (2008) investigate the works of Stephen Hymer and his theoretical contribution in the study of multinational companies and international business in general.

The second stream of literature focuses determinants of FDI (Luiz & Charalabous, 2009; Asiedu *et al.*, 2009; Demirbag, *et al.*, 2008). Factors such as political risks, availability of natural resources, psychic distance, infrastructure, competition, competitive advantage have all been identified as affecting the decision of FDI and the degree of involvement in various locations. This research does not focus on the determinants of FDI.

There is also a third stream which concentrates on the direction of movement of FDI – whether from developed countries to developed countries, from developed countries to developing countries, from developing countries to developed countries and from developing to other developing or emerging countries (Henley, *et al.*, 2008; Buckley, *et al.*, 2008 & 2007). This current research focuses on an example of the north-south flow of FDI, that is, the flow of FDI from the developed to emerging or developing countries. Though there have been studies on UK FDI to new and emerging markets (Whitelock & Jobber, 2004, for example), there is

currently no study that specifically focuses on UK FDI to emerging African countries, using the case study method. Considering the Sino- African relationship and the changing dynamics of the competitive advantage of UK investment in Africa, it is imperative to study the factors that are crucial to the UK investors, as far as their involvement in the continent is concerned.

The fourth stream of research on FDI concentrates on the implications of FDI in terms contributing to balance of payment problems in host countries, creating employment, augmenting technological transfer, improving the overall productivity of both the home and host countries and creating overall growth and development (Ferretti & Parmentola, 2010; Meyer & Sinani, 2009; Adams, 2009; Hatani, 2009; Driffield & Love, 2007). However, none of the above or any other research primarily focuses on UK involvement in emerging Africa, and current research seeks to fill this gap.

Research Method

This research uses the case study method. This method has been identified as very important in management research, especially in seeking in-depth understanding of complex phenomena and in theory building (Aastrup & Halldosson, 2008; Eisenhardt & Graebner, 2007; Yin, 2003). In developing the case study, the author consulted Blue Skies' publications, independent reviews available on the internet and conducted semi-structured interviews with two executives of the company to obtain insight into their operations. This approach can be justified, as it is believed that there is no single best way of writing a case study (Piekkari, *et al.*, 2010). However, certain best practice guidelines have been given in the literature (Eisenhardt & Graebner, 2007; Yin, 2003; Eisenhardt, 1989). Following these guidelines, a review of academic literature to identify a knowledge gap as well as to examine possible theoretical explanations of FDI decision-making was done. Based on the findings, semi-structured interview questions were written and administered to ensure validity and convergence (Piekkari, *et al.*, 2010). The author interviewed a non-executive director as well as the Communications Manager separately. This is consistent with the guidelines of Eisenhardt and

Graebner (2007), as they suggest interviewing staff belonging to different levels of management as a method dealing with challenges confronting the use of case studies to build theories. The inclusion of the non-executive director was imperative because he was able to reveal the locals' perspective of the story, being an African.

The choice of Blue Skies is very significant because it is relatively young, and it is one of the UK companies in emerging markets to have been recognised for excellence. As a result, they received the Queen's Award for Enterprise in 2008. It is also one of the few manufacturing companies in Ghana, for example, as UK FDI to emerging Africa is dominated by service, mining and the oil industry. Therefore this company is an example of other sectors available for profitable investment. The section below reveals more information about the company and the factors dictating their choice of degree of involvement in emerging Africa.

Blue Skies Case: Degree of Involvement and Strategy

Blue Skies Holdings Limited, headquartered in Nottinghamshire, is classified as a manufacturing company, diversified into fruits and related products, such as fresh juice. It was set up by its founder and current chairman, Anthony Pile, in 1997. It has an annual turnover of about £30 million and its growth rate is about 25% annually. It currently has about 1300 employees globally. Until recently, the company had about 2000 employees, but these had to be reduced due to various factors including the British Airways strikes in 2010, which affected the company's ability to produce and transport fresh cut fruits, which remains their main business, to various countries in Europe. Some of the fruits they export to Europe are pineapple, mango, papaya, coconut, melon, passion fruit, banana and pomegranates. The cut fruits are processed in their factories located near the sources of raw materials and exported to countries such as the UK, France and Italy. In the UK, for example, they supply fruits to major retailers such as Waitrose, Marks & Spencer and Sainsbury's. Apart from fresh fruits, the company also produces fresh juices in Ghana and South African only for the local markets.

Strategy and Structure

The company's business model is based on what they call Joint Effort Enterprise (JEE). This model dictates that the company must work collectively with both domestic and international stakeholders to confront challenges they might face. This model was also adopted to alleviate any legacies of colonialism, neo-colonialism and foreignness associated with MNCs from the West. This is because it was revealed in the interviews that there is sometimes a misconception that MNCs are only interested in exploiting the resources of the host countries to enrich themselves. JEE enables stakeholders to demonstrate a sense of ownership and responsibility in ensuring the sustainability and profitability of the company and sources of raw materials. As part of the requirements of the JEE, the management team from all their locations meet every year to discuss current and anticipated challenges and devise future strategies. As typical of most multinational companies, the corporate headquarters in the UK makes strategic decisions and provides direction in terms of operations, logistics, marketing, sales, communications, research and development, finance, management training and technical compliance. One of the measures taken to assure consumers of the quality of their products is the development of an online tool called Caretrace, which enables the consumer to trace the product to its source and how it was produced.

One of the successes of the company in the relatively short period of operation is winning the Queen's Award for Enterprise in the Sustainability Development category in 2008. The UK International Development Minister, Gareth Thomas, commented on the award that it proves that developing countries can export and still be able to take care of the environment. The company has also been assisting the communities in which they work with schools, provision of compost for farmers, working with agronomists to introduce farmers to quality and variety of fruits and creation of employment. It revealed in the interviews the assistance provided the company's agronomists ensures the fruits produced are of good quality and have uniform taste irrespective of where they were cultivated.

It is evident from the above that establishment of FDI in an emerging market does create enormous benefits for both the investor and the host countries. The section below examines factors that were deemed to be relevant in the decision to invest in the three emerging countries stated above, using the wholly owned subsidiary mode.

Choice of Entry Mode

Blue Skies chose greenfield, wholly owned subsidiary mode in all the three emerging African countries it operates. This will continue to be their preferred entry mode for the foreseeable future. The main reasons given were the belief that the founder's ideas and vision for the company, consumers and suppliers were unique. This was because the founder had struggled without success to get this idea implemented in his previous employment, though he was convinced in the business model. Closely related to this reason was the fact that there were no suitable partners in the host countries with similar passion to form joint ventures with, considering the unique vision of the founder. The company also uses this entry mode to achieve the level of control needed to enforce the company's culture, as well as adapt products very quickly to the specifications of the retailers in Europe. This idea is consistent with the general theory regarding entry mode decision-making in developing countries. For example, Chiao, *et al.*, (2010) hypothesised that the more firm-specific advantages a firm possesses, the more it is likely to adopt wholly owned subsidiary entry mode. This view has also been highlighted in the works of Anderson and Gatignon (1986), Buckley and Casson (1976), who generally are of the view that firms choose high degree of involvement strategy to protect unique assets such as technology and expertise. In the case of Blue Skies, this firm-specific advantage was their business model. This strategy also enables the corporate headquarters and subsidiaries to share knowledge and expertise with relative ease (Tan, 2009). This is very crucial, especially in the early stages of the establishment of a subsidiary, as the company begins to deal with the liability of foreignness.

It is worth noting, that Blue Skies' entry process appears to be inconsistent with the Uppsala Process Model, because the company chose the highest degree of involvement and control in each of the three African countries. Within one year of its establishment in the UK, it entered Ghana with greenfield wholly owned subsidiary mode. However, the Uppsala Process model appears to suggest that companies would prefer to increase their involvement and control with experience (Cheng, 2008). Below is a review of the challenges confronting the company in emerging Africa.

Challenges

The company identified availability of good physical infrastructure as one of the main challenges. For example, the roads in an around Accra, the capital city of Ghana, was described as "terrible". This affects the cost and time of transporting raw materials, as well as manufactured products. The second challenge is the instability of the local currency against major currencies. It was highlighted that this affects profitability. For example, it was noted that in Ghana, the exchange rate is tied to the dollar, instead of being allowed to float naturally, and this reduced the company's profit, particularly in 2010. The third challenge is the ideology of policy makers in the countries in which they operate. It was observed that in some cases, attention is focused more on some businesses, rather than adopting policies and ideologies that are conducive for FDI in general.

Conclusion

The above case study examined Blue Skies Holdings Limited's involvement in Emerging African countries. It revealed that in spite of the challenges in emerging African countries, there exists excellent opportunities for investment for innovative companies that have unique business ideas. Blues Skies' example demonstrates that other business sectors, apart from the service and natural resources can be profitable.

This study also has policy implications. It has revealed that in emerging Africa, infrastructure and stability of the local currency are crucial determinants of FDI. It is therefore essential that African governments and international bodies interested in

instituting FDI as a better alternative to aid, take measures to improve the situation. It is also evident that though colonialism is no longer in Africa, there are still nuances of fear of the “foreigner”, when it comes to investment. It is therefore imperative that companies adopt measures, as demonstrated by Blue Skies, to involve the local communities in the affairs of the company. This will go a long way in shaping the attitudes of stakeholders who are essential in the success of the company.

Limitations and Future Research

This case presents only one example of a UK company operating in a particular industry in three African emerging countries. Other companies operating in similar or different industries may choose different entry mode, depending upon their resources, experience, FDI motive and institutional provisions within the individual host country. Hence this case is presented as the beginning of identification of significant patterns to explain UK FDI in emerging Africa. These patterns include how companies use their degree of involvement to implement strategies to confront legacies of colonialism, disadvantages of foreignness, inequalities and other challenges that may exist in African markets. More case studies are therefore required in this area in order to build the required theories (Eisenhardt, 1989; Eisenhardt & Graebner, 2007), as research on UK FDI in Africa is very limited. More cases studies about UK companies’ internationalisation process will also reveal whether consistently the Uppsala Process Model is not applicable when investing in some industries in Africa.

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APPENDIX M: MY PUBLICATIONS AND CONFERENCE PAPERS

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