



BI Norwegian Business School - campus Oslo

GRA 19703

Master Thesis

Thesis Master of Science

Foreign Direct Investment and Host Country Industry
Development: Insights from Africa

Navn: Tung Duy Nguyen, Christoffer Berg
Hestvedt

Start: 15.01.2020 09.00

Finish: 01.09.2020 12.00

Christoffer Berg Hestvedt

Tung Duy Nguyen

Master Thesis

- Foreign Direct Investment and Host Country Industry Development: Insights from Africa -

Supervisor:

Linda Rademaker

Hand-in date:

31.08.2020

Campus:

BI Oslo

Examination code and name:

GRA 19702 – Master Thesis

Programme:

Master of Science in Business – Major in Strategy

Table of Content

TABLE OF CONTENT	I
LIST OF FIGURES	II
LIST OF TABLES	II
ACKNOWLEDGMENT	IV
ABSTRACT	V
1. INTRODUCTION	1
2. LITERATURE REVIEW AND HYPOTHESES	3
2.1 AN FDI FIRM AND LIABILITIES OF FOREIGNNESS	4
2.2 FDI SPILLOVERS, COMPETITION EFFECT, AND HOST COUNTRIES INDUSTRY DEVELOPMENT.....	5
2.3 INSTITUTIONAL THEORY, LEGITIMACY AND FDI SURVIVAL.....	8
2.4 EXPERIENCE OF THE PARENT COMPANY.....	10
3. RESEARCH METHODOLOGY	11
3.1 QUANTITATIVE STUDY	12
3.1.1 <i>Data collection</i>	13
3.1.2 <i>Sample</i>	13
3.1.3 <i>Measures</i>	15
3.1.4 <i>Validity</i>	22
3.2 CASE STUDY	23
3.2.1 <i>Interview</i>	24
3.2.2 <i>Selection of respondents</i>	25
3.2.3 <i>Validity and reliability</i>	26
4. FINDINGS	26
4.1 QUANTITATIVE FINDINGS	26
4.2 CASE STUDY FINDINGS	33
5. DISCUSSION	36
5.1 HCID, LEGITIMACY AND FDI SURVIVAL	36
5.2 JOB CREATION, CAPITAL INFLOW, HCID, AND FDI SURVIVAL	39
5.3 EXPERIENCE, HCID, AND FDI SURVIVAL	40
6. IMPLICATION AND CONCLUSION	41
6.1 THEORETICAL IMPLICATIONS	41
6.2 PRACTICAL IMPLICATIONS	43
6.3 LIMITATIONS	43
6.4 FUTURE RESEARCH	45
6.5 CONCLUSION	46
7. REFERENCE	48

LIST OF FIGURES

Figure 1. The proportion of FDI home continents..... 14

LIST OF TABLES

Table 1. Number of FDI on each host country 15
Table 2. Correlation Matrix and Descriptive Statistics 30
Table 3. Cox Proportional Regression Results with FDI hazard rate as the
dependent variable 31
Table 4. Number of FDI in the sample based on Industry codes 64

LIST OF ABBREVIATIONS

AfCFTA	The African Continental Free Trade Area
CI	Capital Inflow
FDI	Foreign Direct Investment
GDP	Gross Domestic Products
HCID	Host Country Industry Development
HQ	Head quarters
IMF	International Monetary Fund
JC	Job Creation
MNE	Multinational Enterprise
NACE	Statistical Classification of Economic Activities in the European Community
NSD	Norsk senter for forskningsdata (Norwegian Centre for Scientific data)
OECD	Organization for Economic Cooperation and Development
R&D	Research and development
UNCTAD	United Nations Conference on Trade and Development
VP	Vice President

Acknowledgment

Our master's program at BI Norwegian Business School in Oslo comes to an end with this thesis, where we utilize our accumulated knowledge as well as research skills throughout 2 years studying. Our time at BI has been truly educational and exciting, where we have learned strategic theories, practical cases and analytical methods. This thesis is a great opportunity for us to summarize and apply what we have learned into a research paper.

First and foremost, we want to extend our sincere gratitude towards our supervisor, Ms. Linda Rademaker. She has motivated us for the highly interesting topic of the paper. More importantly, with her abundant knowledge and experience, she has been patiently and thoroughly supervised us in both theories and methodology. Her guidance has been always practical, and she has contributed with extensive critical feedbacks that help us to strengthen our arguments in the research.

Additionally, we would like to thank our professors at BI, and the fellow students, who have provided good discussions and learning throughout the two years of our study. Lastly, we would like to thank our families and friends for the support and love along the process of our thesis.

Abstract

Based upon African countries and their level of industry development, this study analyzes the impact of host country industry development (HCID) on the survival of FDI. The study consists of a dataset with 1146 observations of FDI in the African continent. Literature in institutional theory, FDI spillovers, and liability of foreignness have been reviewed and connected towards the analysis to form a theoretical framework. Thereafter, the hypotheses regarding the relationship between HCID and FDI survival, as well as the moderating effects of Job Creation, Capital Inflow, and Experience towards that underlying relationship are formulated, presented and discussed with the applied theories. The hypotheses are tested by applying the Cox proportional hazard regression while case studies will also be conducted to clarify the research context as well as the quantitative findings. The main findings from quantitative results suggest that HCID has a negative relationship with the survival of FDI in Africa. The paper has also found out that while Job Creation can help to weaken that negative relationship, a similar effect is not found in Capital Inflow and Experience of the focal FDI. On the other hand, the case study has showed that practitioners share the same thoughts with the hypotheses which are drawn from theories in the literature review.

Keywords: *FDI survival, FDI spillovers, host countries industry development, job creation, capital inflow, FDI experience, Africa*

1. Introduction

During the last decade, foreign direct investment on the African continent has been increasing and in general, we can see an increase of 11% in 2019 from the previous year (UNCTAD, 2019). Due to the establishment of the African Continental Free Trade Area (AfCFTA) in March 2018, an increase in FDI is visible in the continent. The AfCFTA is a trade agreement among African countries that has bolstered the regional cooperation, highlighted potential growth prospects, and made FDI flows towards the continent (UNCTAD, 2019). As Africa becomes a rising star in FDI attraction, there is a need to understand more from practical perspectives about the key determinants that affect FDI performance in the continent. Our thesis is based on a selected group of African countries, where we seek to understand the relationship and interaction between the host country industry development (HCID) in Africa and the foreign companies' investments. The overall goal of the research is to identify if there is any connection between FDI survival and several variables within the host country industry development, as well as the other variables of the FDI *per se*.

Interaction between FDI and the host country has been studied for decades by several scholars (Aitken & Harrison, 1999; Meyer & Sinani, 2009). Within this research field, the topic of FDI spillover effects, which partly provides us with understanding how FDI influences the host country, has received abundant attention. Papers on the FDI spillover effect have highlighted the key roles of knowledge spillovers, competition effects, and crowding-out effects on local firms (Ayyagari, Dau & Spencer, 2015; Blomström & Kokko, 1998; Meyer & Sinani, 2009; Javorcik, 2004; Spencer, 2008). The concept of FDI spillovers and competition within the local industries is interesting, since the context may consist of many developing countries characterized by soberly underdeveloped or non-existent industries, even if other industries in the country may be more developed (Utoikamanu, 2020). As an UN diplomat, Utoikamanu emphasized addressing the gap in economics, technology and transport between the western world and Africa, where the roles of knowledge spillovers, competition effects, and crowding-out may affect local economies in Africa. However, several academic papers have considered different continents as the primary context, but there are few articles directly connected with FDI and Africa (Diaconu, 2014). For these reasons, with the need to understand the environment for FDI in Africa as well as to contribute to

existing theories regarding FDI survival, this thesis project aims to assess the performance of FDI in the conditions that the host country is lacking in industry development with a sample of foreign companies in Africa.

One practical example of a non-existing industry is the foreign flower growers who have established themselves outside the capital, Addis Ababa in Ethiopia, where the foreign firms have been very successful in building greenhouses meant for exporting flowers for the markets in the Netherlands and the UK. These investments have resulted in the creation of employment for over 183,000 people and a large amount of capital inflow (EHPEA, 2020). Within the same country, the construction sector is experiencing different circumstances with FDI. There are numerous Chinese construction companies that are outbidding local construction companies for the major infrastructure project. It is estimated that FDI sourced from China into Ethiopia increased from virtually zero to 58.5 million USD over the period of 2004-2010 (World Bank, 2012). It is unclear if the benefits associated with the increase of capital inflows outweigh the crowding-out effect in the industry, in which local Ethiopian or African firms are active.

On top of that, Africa is a complex continent with diverse cultures that provides several investment opportunities for multinational enterprises across the globe. In recent times, FDI in Africa is increasing steadily (EY, 2019). Historical FDI trends on the African continent remain largely steady for the last 5-year span, where there is a significant increase in projects and job creation (EY, 2019). Ethiopia as an example has succeeded in becoming one of the world's fastest-growing economies, where the country recorded GDP growth averaged of 9,9% from 2009 to 2018 (Deloitte, 2019). This makes the country's economy the fastest growing economy in sub-Saharan Africa and in the world (Deloitte, 2019). We believe FDI has been vital for the growth of African countries economies. However, the African continent has been known for lacking in business development in general (Schwab, 2014). Key challenges such as business management, growth, risk management and cultural differences must be addressed before conducting FDI on the African continent (Schwab, 2014; Root, 1994; Bukley & Casson, 1998). To understand and to manage the general environmental factors are critical for any establishment and growth for an MNE in an emerging market.

The purpose of this thesis is to understand the importance on how local industry development can help or hinder FDI performance in Africa through different

mechanism such as FDI spillovers and legitimacy (Ayyagari, Dau & Spencer, 2015; Blomström & Kokko, 1998; Meyer & Sinani, 2009; Javorcik, 2004; Spencer, 2008). Based on our observations and previous theories, the research question is proposed as following:

How and when does a lack of host country industry development influence FDI survival in Africa?

As a predominant research topic in international business, FDI performance has been studied for years with a widely used determinant of subsidiary survival (Delios & Beamish, 2001; Geringer & Hebert, 1991). We have developed hypotheses to be tested on a specific sample of FDI in Africa. In like manner, this study will also employ FDI survival as a key measure of FDI performance and integrate it into the research question. The research will test the role of FDI's spillover effects that may create legitimacy and influence for the MNEs in Africa. The study will highlight the necessity to broaden the conception of FDI spillovers to not only productivity, efficiency or innovation improvements of local firms, but also to take a more holistic view of capital inflows and job creation as FDI outcomes that are also vital for the host country and may have a negative impact on legitimacy and performance of FDI.

2. Literature review and hypotheses

In this section, the paper aims to review the existing theories that explain the performance of FDI or subsidiary in a foreign country, especially focus on theories that are highly associated with host country industry development. The review will help building a theoretical framework to clarify the terminology used in this paper, and most importantly, to hypothesize the relation between FDI performance and the host country industry development. For that purpose, the paper will review a vast body of literature regarding liabilities of foreignness (Zaheer, 1995), FDI spillovers effects (Ayyagari, Dau, & Spencer, 2015; Blomström & Kokko, 1998; Meyer & Sinani, 2004; Spencer, 2008), and institutional theories (Gaur & Lu, 2007). Especially, the importance of legitimacy, as well as the matter of institutional distance between home and host countries (J. W. Lu & Xu, 2006; Salomon & Wu, 2012) towards FDI survival will also be addressed. Afterward, the hypotheses regarding the relationship between FDI and host country industry development, together with the moderating effects, will be established.

2.1 An FDI firm and liabilities of foreignness

The IMF's Balance of Payments Manual, (2013, p. 100) defines FDI as "a category of cross-border investment associated with a resident in one economy having control or a significant degree of influence on the management of an enterprise that is resident in another economy". Whereas, according to OECD's Benchmark Definition of Foreign Direct Investment (2008, p. 43), FDI refers to "the objective of establishing a lasting interest by a resident enterprise in one economy (direct investor) in an enterprise (direct investment enterprise) that is resident in an economy other than that of the direct investor". While both definitions recognize the cross economic border characteristic of an investment, the IMF emphasizes more on the level of control while OECD emphasizes on the lasting interest of an investment. Indeed, OECD (2008) also considers one who has at least 10% of voting power as a direct investor. Thus, the definition of a foreign firm, or an FDI firm studied in this paper will be based on these two definitions. For that reason, direct exporters are outside of the scope of this paper.

Regarding doing business internationally, there is a need to consider the liabilities of foreignness. As a multinational enterprise (MNE) theorist, Zaheer (1995) has argued that a foreign subsidiary possesses a lot of disadvantages and challenges in a host country, in comparison to the local firms. In her paper, the "liabilities of foreignness" phenomenon was defined as "the additional costs of doing business abroad that result in a competitive disadvantage for an MNE subunit" (1995, p.342). Her work claimed that liabilities of foreignness vary in different host countries and FDI performance is worse towards an extension of greater such liabilities. These findings have raised an interesting field for scholarly research for decades and received support from other's works (Delios & Beamish, 2001; Shaver, Mitchell, & Yeung, 1997). In particular, Eden and Miller (2004, p. 2) claimed that the liability of foreignness emphasized the social cost arose by "unfamiliarity, relational and discriminatory hazards" which can be explained by the institutional theory. It was figured out without a doubt in the literature that a foreign company not only perform more poorly but also face a higher hazard of exit compare to the domestic ones (Miller & Parkhe, 2002; Zaheer, 1995; Zaheer & Mosakowski, 1997). Furthermore, other than liabilities of newness, which happens to both newly established foreign and domestic firms in a country, liabilities of foreignness enhance the challenges for businesses with foreign origin (Zaheer, 1995). Therefore, in order to ensure the

firm can survive and perform well in the host environment, there is an urgent to overcome liabilities of foreignness as soon as the FDI arrives in the host country (Zaheer, 1995).

2.2 FDI spillovers, competition effect, and host countries industry development

The literature has shown an adequate understanding of how FDI affects the host countries' conditions. In most of the cases, some studies mainly explained the phenomenon through overall host countries development, such as GDP per capita, rather than specific industry development, i.e. the study of Meyer and Sinani (2009). Despite the mechanisms, in order for FDI spillovers to happen, the precondition is that there must be local firms to diffuse knowledge and technology to compete with or to crowd out. However, the fact is that FDI in some under-developed countries experiences a very low or even non-existent local industry. Therefore, there may be inadequate understanding of the role of local industry in the effects of FDI spillovers, especially where there is no or very low presence of local firms that leads to no spillovers and competition effects. In this paper, HCID will be discussed to the extent of the presence of local firms in the same Industry with a focal FDI.

There is an immense stream of research on the relationship between FDI and the host country in the literature, including the interaction of FDI with local industries. Though there are both positive and negative impacts of FDI on the host country, it cannot be denied that FDI may bring plenty of advantages to the local industries, thus contributing to the host country's economic development in some means (Eden, 2009; Meyer & Sinani, 2009). Singh (2007) and Spencer (2008) claimed that the host country's economy can experience an increase in productivity and the level of innovation in the presence of MNE. Some important resources for development such as capital, knowledge, technology, and managerial system that FDI may bring to the host country are the obvious advantages. However, most of the resources are transferred from foreign entrants to local firms without a contractual relationship, namely the spillover effect (Sinani & Meyer, 2004). In fact, some valuable intangible resources such as knowledge, including technical know-how, are spread out mainly into the local economy with the spillover effects (Meyer & Sinani, 2009). In contrast, the presence of MNEs may also adversely affect local firms and may increase their rate of exit from the market (Aitken & Harrison, 1999; Chang & Xu, 2008; Feinberg & Majumdar, 2001).

There are four main mechanisms for FDI spillovers, namely demonstration effect, domestic linkage, employees' turnover, and competition effect (Zhang, Li, Li, & Zhou, 2010). Firstly, the demonstration effect refers to the phenomenon that local firms observe, learn, and imitate practices in technology and management from foreign companies (Blomström & Kokko, 1998). The second mechanism refers to the fact that, when the FDI come to the host country, they must form some vertical linkages with suppliers and distributors. Therefore, their knowledge will also be diffused to other local firms who also participated in the same supply chain (Spencer, 2008). The third mechanism is the movement of employees from foreign firms to domestic firms. These employees will carry with them the knowledge learned from the FDI to the domestic businesses, thus creating positive spillovers (Campbell, Ganco, Franco, & Agarwal, 2012; Zhang et al., 2010). Finally, on the positive side of the competition effect, the presence of FDI in the host country can also put some pressure on the local firms, forcing them to develop further in order to win the competition (Kokko, Tansini, & Zejan, 1996).

Besides a vast body of literature studying the mechanism of FDI spillovers, there is another scheme that focuses on the initial conditions affecting FDI spillovers. In general, FDI spillovers, especially technology spillover, depend on some specific characteristics of the recipient firm, such as firm size, ownership structure, absorptive capacity, and trade orientation (Meyer & Sinani, 2004; Zhang et al., 2010). In the dyadic relationship between the FDI as the diffuser and the domestic firm as the receiver of knowledge and technology, the technology gap between them also matters. This gap can also be reflected from the FDI's country of origin and the host country (Zhang et al., 2010).

Nevertheless, in the interaction between the host country's local firm and the MNE who brings the FDI, there may be some negative impacts caused by crowding out effect (Chang & Xu, 2008; Kosová, 2010). Basically, when the technology gap between the two countries is high as in the case of FDI in a developing or an underdeveloped country, while the MNEs will steal or draw the market from the local companies, the negative impacts of FDI presence can outweigh the benefits from the spillover effect (Kosová, 2010; Meyer & Sinani, 2009; Spencer, 2008). To illustrate the multi-effects of FDI spillovers, in their study, using meta-analysis of 66 other studies on FDI spillovers, Meyer and Sinani (2009) found a curvilinear relationship between host countries development and FDI spillovers. In which, the

authors have shown that the benefits of FDI spillovers are highest in the low- and high-income economies and is lowest at the middle-income economies.

On the contrary, a foreign firm also must face competition from the domestic firms in the same industry. In international business, an MNE must learn to compete differently in different markets, if they are to achieve a sustainable competitive advantage over their rivals. Indeed, this competition extensively determines the survival of a foreign company. The rivalry may be defined on how firms' behaviors towards each other to acquire their goals, the evolution of the industry itself, and the performance of firms (Gimeno, et al, 2002). In his five-force model, Porter (1980) classified rivalry within an industry is a key component that shapes a firm's activities, thus, holding a decisive influence towards the firm's performance. Considering organizational ecology, competition occurs as many organizations vie for a limited common pool of resources (Baum & Korn, 1996).

In this paper, we do agree with the prior literature that the benefits of FDI spillovers, through knowledge spillover and demonstration effects, towards the host country industry are increased with the host country industry development. However, with the competition, or crowding out effect, as HCID becoming more developed with a higher number of local firms, the survival likelihood of an FDI will be decreased (Hannan & Carroll, 1992; Navis & Glynn, 2010). This compensation can also be explained from the legitimacy perspective which will be reviewed in the following section, namely 2.3. In other words, when HCID is low, it is more difficult for an FDI firm to gain legitimacy due to the absence of knowledge and technology spillover. However, when HCID is high, though an FDI can gain some legitimacy from FDI spillover effect, the crowding-out effect will also put some obstacles in legitimation process of a firm since the domestic firm will impose a hostile view on the firm's entry (Ayyagari, Dau & Spencer, 2015; Blomström & Kokko, 1998; Meyer & Sinani, 2009; Smarzynska Javorcik, 2004; Spencer, 2008). Therefore, when HCID is high, it seems to have the zero-sum implication of legitimacy towards FDI survival since FDI spillover adds on some legitimacy while the crowding-out effect takes them away. In sum, as HCID increases, the outstanding effect towards an FDI will be competition effect with a more intense rivalry from a higher number of domestic firms, the FDI will be less likely to survive, even though there are some positive compensations from spillovers effects. We, therefore, hypothesize that:

H1: HCID is negatively related to FDI survival.

2.3 Institutional theory, legitimacy and FDI survival

As stated above, there are many liabilities of foreignness that reduce the survival of an FDI in the host countries. One of the most vital conditions for an FDI to overcome these liabilities is to attain legitimacy in the host environment, as soon as it arrives in the host country (Lu & Xu, 2006; Singh et al., 1986). Institutional theorists claimed that social justification, or legitimacy, holds a critical role in framing a firm's activities (Scott, 2014). Therefore, it is important for any firm to acquire legitimacy in its host environment to make sure that the firm can survive and have great performance (Dowling & Pfeffer, 1975; Elsbach & Sutton, 1992; Singh, Tucker, & House, 1986). Lu and Xu (2006) stated that legitimacy helps firm to gain technical benefits and support from the local constituents such as access to market, or access to resources. An FDI firm, a firm that invests in a foreign country, may need both market legitimacy, the "rights and qualification to conduct business in a particular market", which allows a firm to enter then exist in a new market, and the social legitimacy which allows it to possess a socially responsible corporate image (Dacin, Oliver, & Roy, 2007, p.173).

Though there are multi-type of legitimacy, Scott's typology (2013), which is based on regulative, normative, and cognitive pillars, is widely used and accepted. While the regulative pillar concerns law and regulations, and normative pillar is about cultural and social norms, the regulative pillar considers the taken-for-granted as a social structure. These three pillars create Scott's typology of regulative, normative, and cognitive legitimacy, correspondingly. This paper mainly considers cognitive legitimacy since it is the most important type, as Scott admitted (2003). Cognitive legitimacy works as a basic framework so that the others two types of legitimacy can be constructed (Ruef & Scott, 1998). Besides, cognitive legitimacy as an informal type can sometime drop behind or conflict with the formal type, namely regulative legitimacy (Kostova & Zaheer, 1999). On top of that, without cognitive legitimacy, a firm cannot be view as fully legitimated (Aldrich & Fiol, 1994).

Regarding legitimation process, there are many ways to define and how a firm can achieve legitimacy. Suchman (1995, p. 574) defined legitimacy as "a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and

definitions”. Accordingly, legitimation should be a process in which the firm should conform their strategy, structure, and activities to the local norms, beliefs, and values. Consequently, in order to be legitimated, especially the cognitive legitimacy, all the actions and actors of the organization would be justified by its constituents (Dacin et al., 2007). Dacin and the co-authors stated that these constituents may include shareholders, customers, governments, and public interest groups. On top of that, legitimacy can be exchanged or transacted between parties (Pfeffer & Salancik, 1978). Indeed, Dacin et al. (2007) defined partners as the main source of all legitimacy types, including market, relational, social, and investment legitimacy. In the literature, Sharfman, Gray, and Yan (1991) also raised a term of “collective industry”, implying that industry can acquire and build up legitimacy together as a whole. Their research in the garment industry showed that the level of collaboration among members in an industry can increase the level of their legitimacy. Besides, Oliver and Baum (1991) also stated that the inter-organizational linkages with highly legitimated partners can help to increase the survival rate. Therefore, there are evidence showing that in a condition where there is a weak or non-existent industry in the host country, it will be challenging for an FDI to obtain legitimacy since there are limited partners to interact with.

In such circumstances, other than FDI knowledge spillovers and demonstration effects, an FDI can attain legitimacy through its contribution to the host country’s welfare, such as capital inflow and job creation. When there is no or very low number domestic firm, or in other words, very weak HCID, an FDI will not be concerns with crowding-out effects but be viewed as a positive development in the host counties (Meyer & Sinani, 2009). In this circumstance, FDI gains legitimacy mainly through job creation and capital inflow, thus improving FDI survival (Forstenlechner & Mellahi, 2011). Indeed, the larger the capital inflow, the smaller the rate of exiting of an FDI (Bernard & Sjöholm, 2003). Accordingly, when there are more jobs and spending associated with the FDI within the country, there will be higher welfare for society. By way of contributing to a higher level of social welfare, the FDI can reduce the skepticism on their motives and increase their legitimacy as a positive development towards the host country. Furthermore, if the motivation of the FDI is not for the purpose of market-seeking, there may be no harm to the local economy due to the crowding-out effect. Therefore, higher welfare will be the main source of legitimacy for a foreign firm in this case. As it was

supported in the theories, increased legitimacy means that a firm is justified and accepted by the constituents in the host environment. A legitimate foreign firm will get better access to resources in the host country, making it easier to overcome the liability of foreignness. Therefore, an increased legitimacy will help a foreign firm to better survive in a new and foreign environment. Thus, as when HCID is low and a foreign firm cannot gain legitimacy through spillovers effect, Job Creation and Capital Inflow will be the main source of legitimacy, thus help to increase the survival rate. On the other hand, as HCID increases and the host environment becomes more competitive, the added legitimacy from Job Creation and Capital Inflow will also weaken the negative impact of the increased HCID on FDI survival. This leads to our second group of hypotheses regarding the moderating effect of capital inflow and job creation towards FDI survival:

H2a: The number of jobs created will weaken the negative relationship of HCID and FDI survival, particularly if HCID is low.

H2b: The amount of capital inflow will also weaken the negative relationship of HCID and FDI survival, particularly if HCID is low.

2.4 Experience of the parent company

In this section, the paper will follow the traditional pathway to discuss the impact of experience on survival of FDI, particularly in African context. However, the paper will also take a step further to test the impact of experience in the different context of HCID to see if it plays a moderating role towards the negative relationship of HCID and FDI survival as hypothesized in H1.

In the academic field of FDI survival, previous scholars stated that the experience of parent company play a vital role in FDI survival (Delios & Henisz, 2003; J. Lu, Liu, Wright, & Filatotchev, 2014; Shaver et al., 1997). Zaheer and Mosakowski (1997) claimed that experience would help a foreign company to deal with liabilities of foreignness as the firm possesses more knowledge regarding customer preference, suppliers, and business practices in the host country. The lack of understanding and information regarding customers, suppliers, and institutions in the host country may lead to an unwillingness to conduct business in the host country, leading to a higher rate of exiting (Kostova & Zaheer, 1999). Therefore, in case of conducting FDI in Africa, we projected that if a parent company has prior experience of doing investment in Africa, it will help to increase the survival rate

of a subsidiary. In case of Africa, most of the countries are viewed as having a high level of uncertainties, especially in political and economic environment (Schwab, 2018). In their work, Delios and Henisz (2003) have figured out that the experience in the same cultural block and political hazardous environment help to increase the rate of survival to the FDI, in comparison with the first-time entrance of an FDI which has no prior experience. This leads to the next hypothesis:

H3a: The experience of doing business in Africa will help to increase FDI survival.

In the context of this research, while H3a is simply test again the relationship between experience and the FDI survival, the next hypothesis will take a step further to test the effect of experience while the HCID is very low or non-existent. Some studies suggested that when HCID is more developed, the liability of foreignness is slightly lower since the business practice in the host country is partly imported and can be reached out to an international level (Nachum, 2003). In addition, a foreign firm operating in a dense industry will face less discrimination, due to the fact that the local community may have an international rather than a purely local perspective (Barkema, Bell, & Pennings, 1996; Merton & Merton, 1968). Therefore, in such circumstance, when HCID is developed, the impact of the experience will be less likely as significant as it is when HICD is low or non-existent. Moreover, when there are challenges for building a business from beginning in least developed host countries in Africa, the experience in the same situation will help a foreign firm overcome these challenges. Thus, we hypothesize that the experience of the parent company in doing business in Africa will be more significant when HCID is low and positively interact with HCID.

H3b: The experience of doing investment in Africa will weaken the negative relationship of HCID and FDI survival, particularly if HCID is low.

3. Research Methodology

This chapter will explain and describe the chosen research method we apply in our study. The paper mainly employs a deductive approach with a quantitative method to test the hypotheses which used data collected from African countries. In addition, a case study approach will follow to get more insights from practice which can complement for the quantitative findings or open ways for future research. This chapter then is divided into two parts, where we describe the quantitative and case

study methods separately. Each section will be concluded with an elaboration of reliability and validity.

3.1 Quantitative study

Deducted from the established theories, the quantifiable hypotheses for statistical analysis have been described in the sections above. The process of testifying these hypotheses will be put into words in this section with the quantitative methodology, including research design, data collection and sample, measures, and its validity.

In order to test the proposed hypotheses, a longitudinal dataset of the FDI in Africa will be used. The survival of FDI will be the dependent variable with the binary outcome: survival or exit. By exit, this paper only considers a complete desolation of a subsidiary.

Refer to the work of Cox and Snell (1989) regarding the analysis of binary data, the Cox-proportional hazard (PH) models will be applied since it is a common efficient method for survival analysis since it accounts for possible impacts of different variables on the time interval between the two events, entry and exit, of an FDI. As one of the main advantages, the Cox PH regression is believed that it can adjust the interaction among the different survival-affected covariates (Cox & Snell, 1989). Besides, without demanding a specific time of entry and exit for each FDI observation, the logistic regression (logit) model is less strong compare to the Cox PH ones. Moreover, the logit model can also be applied to check the robustness of the effects, if any.

First and foremost, once the data is collected to create a sample, a descriptive statistical analysis will be provided with a summary of each variable and with a correlation matrix among them.

Then, in order to test the hypotheses, the Cox PH models are basically established as below:

$$h(t) = h_o(t)\exp (b_i x_i)$$

In which $h_o(t)$ is the baseline hazard in the model where all x_i equal to zero, x_i denote time-independent variable such as host countries industry development, the number of jobs created and capital inflow by the FDI and the other control variables as explained above.

Thus, with a data set available for all independent variables, by the models proposed above, the hypotheses for the dependency of FDI survival on the legitimacy, which is created by job creation and capital inflow the host country industry development can be tested.

3.1.1 Data collection

In this section, the process of data selection and filtering leads to our final sample of 1146 observations will be described.

First and foremost, the data should be selected given that the main purpose of this research is to study the impact of the host country industrial development on FDI in different countries in Africa. On top of that, the levels of analysis, both subsidiary and industry, are the key determinant of data selection for the main dependent and independent variables. In fact, since this study research the phenomenon in different countries across Africa, there is a need to control these differences in the models, thus, macro-level data for countries will be also collected for the control variables. As a matter of fact, though being less abundant and detailed as the data for the developed countries, the macro-level data for the African countries are accessible through public sources such as the World Bank. In contrast, finding detailed at the subsidiary level in Africa was a challenge due to the lack of data availability and transparency. Three databases, namely Orbis, SDC, and LexisNexis Corporate Affiliations, were scanned. Orbis (2020) was selected as the main resource for the measure since it provides the most important measure: time frame with the year of entering and the year of exiting of an FDI in Africa (if any). Basically, Orbis presents data for millions of different companies in the world in which it is possible to filter for foreign companies in Africa. Using such filters, we have filtered out 12,614,592 companies in Africa in which 16,916 companies have standardized legal registration as a foreign company (Orbis, 2020).

3.1.2 Sample

Due to limited data for companies in Africa, we took the approach of convenience sampling, which is a sampling method that is simply available to the researcher by virtue of its accessibility (Brymann & Bell, 2015). For that reason, data availability makes an important antecedent for sampling. Using this approach, the database needs to be explored to fulfill the measures for variables proposed in the hypotheses. There is also a need to be fully aware of the limitation or bias that is may arise from

the convenience sampling approach which will be discussed in detail in the validity section.

As noted in the data collection, the sampling process begins with a dataset of 16,916 FDIs in Africa in which a lot of information is missing. For sampling, we filter the observations that meet the following requirements:

- Being clearly classified into an industry with a specific NACE code
- Having data available for the number of employees
- Having data available for the number of total assets
- Being clearly indicated with a date of incorporation.

By applying these 4 criteria, we ended up with 1146 observations in total. However, for some variables, there is a large percentage of data unavailable, i.e., capital inflow, which will be discussed later in discussion and limitation of the research. It may create some bias in different models.

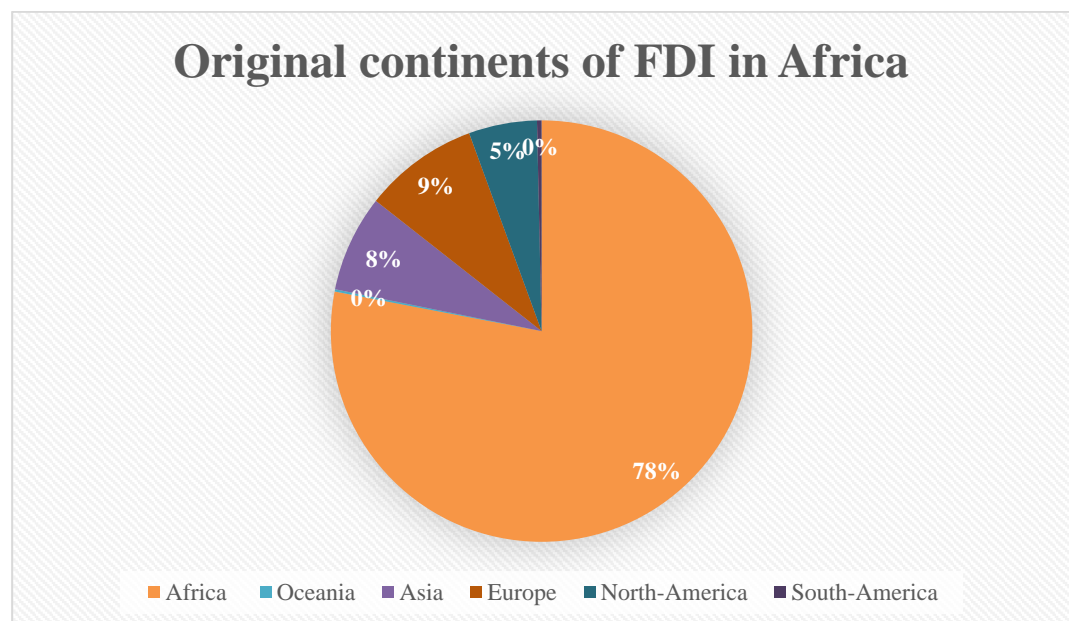


Figure 1. *The proportion of FDI home continents*

To describe our sample, figure 1 shows the percentage of the home continent where the FDI came from, we can see that the intra-continent of FDI takes a majority. Most of the companies which perform FDI in Africa is from African countries. Therefore, it will be no surprise that most of them have experience in doing business in Africa. Figure 2 shows the proportion of the host country where we see that Botswana, South Africa, and Namibia are the three most attractive countries as the

FDI-receiver. The number of firms in every industry in the sample according to the NACE 2-digit code is presented in table 4 (Appendix 3).

Table 1. Number of FDI on each host country

Country	Number of FDI	Country	Number of FDI
Botswana	479	Gabon	4
South Africa	256	Morocco	4
Namibia	149	Tanzania	4
Egypt	42	Djibouti	3
Angola	29	Tunisia	3
Zambia	26	Kenya	2
Congo	17	Chad	2
Mauritius	16	Cameroon	1
Eswatini	13	Cabo Verde	1
Nigeria	12	Ghana	1
Sierra Leone	11	Gambia	1
Liberia	10	Lesotho	1
Libya	9	Madagascar	1
Burundi	7	Mauritania	1
Ivory Coast	7	Malawi	1
Seychelles	7	Mozambique	1
Benin	6	Niger	1
Equatorial Guinea	6	Rwanda	1
Ethiopia	5	Senegal	1
Congo DR	4	Uganda	1

3.1.3 Measures

Based on the hypotheses as mentioned above, the main independent variables will be HCID while job creation, capital inflow, and experience of the focal FDI will play an important role as a moderating effect in the models. Besides, there is a need to control other factors that may affect the survival of FDI such as entry mode choice (Shaver, 1998), the experience of the parent company (Shaver et al., 1997), and economics distance (Tsang & Yip, 2007). However, since the research works on a sample of multiple countries, the specific conditions of each country, such as GDP growth, political stability, corruption (Rodriguez, Uhlenbruck, & Eden, 2005), cultural distance (Kogut & Singh, 1988) or even geographic distance (Ghemawat, 2001) should also be controlled. However, data availability will be an important antecedent on which variables could be included.

This section gives information on how the dependent, independent, and control variables are measured for the Cox PH models.

Dependent variables

FDI survival: As described in the sample above, the FDI survival is a binary outcome of all the observation within the observing periods for the FDI in Africa. If an FDI enters an African country then exits or dissolves, it will be denoted with value “0”, meaning that the investment or subsidiary is no longer exist in Africa. The database of Orbis denotes an FDI as an exit if it is completely dissolved and a dissolved date will be provided. In case an FDI is sold, it is accounted as survival. The Orbis can However, the database does not account if the subsidiary is sold to a local or foreign part. Otherwise, if the FDI is still surviving, it would be given the value of “1”. In a matter of fact, with limitation of data availability, these surviving subsidiaries may not have data available until today but only until a particular year in the past. It is reasonable to treat these cases as survival since there is no evidence that they have left the host country. However, these cases are simultaneously seen as the observation drop out of the sample within the observing period. This matter produced those right-censored observations because they either not yet experience the failure event or as drop-out of the study in the observing period.

Explanatory variables

HCID: With reasoning in the section of theories framework, host country industry development matters in the sense of how developed were the local industry in which the FDI participated in. As reviewed in the theoretical framework at the beginning of this paper, HCID is a key determinant towards FDI spillovers and competition effects, thus imposing a decisive role in FDI survival. To this extent, there are different ways to measure HCID, for example, the annual rate of domestic entry to an industry (Görg, & Strobl, 2005) or domestic firm size (Bronzini, 2007). Some other studies may take a relative view between the host and home countries of the FDI and measure HCID of the host countries with the technology gap (Tian, 2007; Zhang et al., 2010). In this paper, we use the number of local firms in the same industry as a proxy for the host country industry development. Unfortunately, as the dataset does not properly provide a specific date of incorporation for local companies in Africa, it will become inefficient and inappropriate if we filter for the number of companies in the local industry prior to the entry of the FDI. Therefore,

all the companies in the local industry will be counted disregard of time. In other words, the number will be accumulated in the whole range of the observing period. From our perspective, this number is eligible to present the development of an industry in a specific host country.

In order to define the industry in which an FDI or a firm in the host country belongs to, the NACE code by the European Commission (2020) will be applied. Applying the NACE code, the number of local firms at both 2-digit and 4-digit levels will be counted from the general dataset of 12,614,592 companies in Africa, excluding the foreign companies.

Job creation, literally, should be measured by the number of jobs that an FDI made to the local economy. In the scope of this research, the variable is measured by the latest number of total employees of a subsidiary in Africa due to data availability, though ideally, it should be measure at the year of entry. However, it is still a valid measure since this variable presents the total number of job created during the lifetime of an FDI in Africa which has a meaning towards legitimacy of that FDI in the host country. If an FDI exits or dissolves, the number of total employees will also indicate its last number of employees before the time of exit. This measurement is an important condition that we used to filter for valid observation from the Orbis dataset (2020). In addition, the hypothesis project that Job Creation will moderate the relationship between HCID and FDI survival, thus, in the model, there will be an interactive effect between Job Creation and HCID to test this hypothesis.

Capital inflow, or the investment size of FDI is an independent variable that contributes to the survival of the FDIs. This variable is measured in total assets of the FDI by the latest available year. It would be ideal to measure the variable in the total amount of registered investment from cross-border transactions or a specific amount invested in the host country during the observing period. However, with a general situation as a lack of transparency in Africa with limited access to these indicators, this study employed an alternative measure by using the number of total assets of FDI to indicate the capital amount invested from the FDI in Africa. These observations are withdrawn from the database of Orbis (2020). Similar to Job Creation, the moderating effect of Capital Inflow towards the relationship of HCID and FDI survival will also be presented through an interaction variable between Capital Inflow and HCID.

Experience: It is indicated clearly in the literature that experience matter towards the survival of a subsidiary abroad. (J. Lu et al., 2014; Shaver et al., 1997). Thus, in this paper, we will apply this variable to test the case of FDI in Africa as expressed in H3a. On top of that, this research will also test the moderating effect of the parent's experience doing investment in Africa towards the relationship between HCID and FDI survival (H3b). Thus, an interaction between the experience and HCID will be included. Regarding measurement, the study will measure experience of the parent firm in doing foreign investment in both global and African scope by the number of their subsidiaries in foreign countries as two variables as below:

- **Global Experience** is measured by the total number of subsidiaries of the parent companies all over the world.
- **African Experience** is measured by the total number of subsidiaries of the parent companies in all African countries.

These variables are taken by the total number of subsidiaries abroad, rather than the home country of the parent firm. These subsidiaries are tracked via the family tree of the parent companies which is provided by Orbis (2020). All the subsidiaries satisfy the condition that they are a foreign direct investment from the parent company. However, all these measures are counted at the latest available years of the parent companies, though ideally, they should be taken at the year that the FDI entered in Africa. Unfortunately, the database of Orbis does not provide yearly information regarding these two data. This matter may reduce the validity of the models. In fact, though there is a discrepancy in time, the data still presents the experience of a parent company via the international and African scope of business of the parent company. For example, if a company had had the right knowledge and experience prior to the focal FDI in Africa, it would result in a high number of subsidiaries abroad that they could perform.

Control variables

Besides the factors that affect FDI survival discussed in the literature review above, there are many other factors that need to be controlled to increase the validity of the findings. This study aims to control factors that are relevant to the focal FDI, industries, and the host countries.

In the institutional theory, the differences between home and host countries have a significant impact on the performance of the FDI, for example economic distance or difference in business practices. On top of that, the host country conditions itself, such as infrastructure or market size, can also affect FDI outcomes.

It was indicated quite clear in the literature that market size and market growth have a significant impact on the survival of the FDI, or in particular, whether the parent companies decide to exit from the host country (Benito, 1997; Hennart, Kim, & Zeng, 1998). Therefore, this study, the indicators of GDP growth rate and GDP of the host countries in the year that FDI will be employed but with the purpose of controlling for the difference among the host countries rather than to include the effects of market size and market growth. On top of that, some literature showed the correlation between political stability and corruption towards FDI performance in a host country. However, this study does not include a specific measure for these factors as independent variables since political stability and corruption have been reflected into GDP growth rate. A high level of political instability and corruption with result in lower GDP growth rate, especially in Africa (Gyimah-Brempong, 2002; Mo, 2001). These variables are distracted from the World Bank database (2020) and described as follow:

- ***GDP per Capita***: is the GDP per capita of the host countries at the year the FDI entered, measured in the unit of thousand US dollars.
- ***GDP per Capita Growth*** is measured by the growth rate of GDP per capita in the host countries in the year that the focal FDI entered, compared to the previous year. The growth rate is indicated as a number with 2 decimal digits.

On the other hand, the discrepancy between home and host countries also contribute to the performance of FDI in the host countries. According to prior research, in this study, there is an aim to control distances between countries, both institutional and geographic distance.

Apart from legitimacy, institutional theories also mention the institutional distance between the country of origin and the host countries that imposes some difficulties towards performance of a subsidiary (Ghemawat, 2001; Kostova, 1999; Salomon & Wu, 2012). Basically, institutional distance affects the discrepancy or similarity between regulative, normative, and cognitive institutions between the two countries (Kostova, 1999). This is the main reason why acquiring legitimacy in a foreign

environment may be more challenging than in the home country. Kostova and Zaheer (1999) also see that the higher the institutional distances between home and host countries, the more difficult for the subsidiary to establish legitimacy. The phenomena, in that case, can be seen quite obviously that the local firm may have a higher performance in comparison with a foreign firm (Zaheer, 1995).

One of the commonly used measures representing institutional distance is cultural distance. This phenomenon has been widely discussed and researched for the past years. Some scholars, such as Kogut & Singh, and Hofstede have made remarkable findings in how cultural differences affects FDI. Kogut and Singh (1998) gave birth to the concept of national cultural distance and the associated index. The index explored the effect that cultural distances have on firm's choice of foreign market entry mode choice (Kogut & Singh, 1998). On the other hand, Hofstede's cultural dimensions theory is a framework for the cross-cultural dimension. The framework shows the effects of different society culture from country to country measured in terms of individualism-collectivism, uncertainty avoidance, power distance, and masculinity-femininity (De Mooij & Hofstede, 2010). Later, the dimension of long-term orientation has been introduced to cover aspects of FDI long term commitment in the industry or country (Minkov & Hofstede, 2012).

Besides, economic and geographic distance is also normally used together with cultural distance to fully present an institutional distance between the two countries (Ghemawat, 2001; Tsang & Yip, 2007). Tsang and Yip (2007) stated that in host countries that are either more or less developed than a home country, FDI's hazard rates are lower than the rates in countries of similar economic development. In other words, if the home economy is more superior than the economy in the host country, the FDI will have a higher survival chance. In addition, geographic distance also matters since it can be used to indicate the liability of foreignness of an FDI (Ghemawat, 2001; Zaheer, 1995). In his paper, Ghemawat (2001) focused on the geographic distance between countries and how this influenced the survival of FDI. The longer distance would result in more complications, in comparison with companies that have an HQ closer to the host country.

This study employs cultural distance, economic distance, and geographic distance to present the institutional discrepancy between home and host countries since it has a significant impact on the performance of the MNEs (Tihanyi, Griffith, &

Russell, 2005; Tsang & Yip, 2007). The measures for these variables are noted below:

- **Cultural Distance:** According to Hofstede (2001), national culture refers to a “collective mental program” that distinguishes a group of people from the others. A national culture is measured along six dimensions developed Hofstede (2020), namely power distance, uncertainty avoidance, individualism, masculinity, long-term orientation, and indulgence. Inheriting and developing from Kogut and Singh (1988) cultural index, cultural distance is measured with 6 dimensions as below:

$$CD_{ik} = \frac{\sum_{j=1}^6 [(H_{ij} - H_{kj})^2 / Var_j]}{6}$$

In which, H_{ij} is the cultural dimension j in the home country I , H_{kj} is the cultural dimension j in host country k , Var_j denotes for the variance of cultural dimension j across the all the countries. In fact, not all countries in the sample have the indices of Hofstede dimensions available. In such circumstances, we calculated and applied the mean of that index from data of the other African countries in our sample. The name of these countries is expressed in figure 2 above for the host countries.

- **Economic Distance.** The measure for this variable is developed from Tsang and Yip (2007) using real GDP per capita in the current \$US of home and host country (World Bank, 2020) at the year the FDI entered in the host countries. The measure is expressed as follow:

$$ED_{ik} = |\ln(y_i) - \ln(y_k)|$$

In which, y_i and y_k is GDP per capita of the focal firm’s home country and the target country, respectively. Thus, economic distance is measured by the absolute value of the difference between the natural logarithm of the two indicators of home and host countries.

- **Geographic distance** is measured in a total kilometer, by the direct distance from capital to capital of home and host countries using Bing database integrate into Excel. The variable should indicate the amount of distance and if the longer distance between the two countries has any effect on FDI survival. The concept of geographic distance has been researched previously, where results show how distance can differentially affect firm foreign investment decisions. Prior research has shown that distance matters, the example distance dimensions can be used to

examine how, why and when cross-national distances influence managerial (Berry, et al, 2010).

Dummy variables

- ***Industry dummies.*** Though the industry development has been accounted as the main explanatory variable and measured by the number of local firms within that industry, there may be other industry-specific factors that we need to control, for example, the nature of competitive environment or the level of industrial concentration. Thus, this study will create dummies 79 industries at the 2-digit NACE code level of the sample to control industry-specific effects.
- ***Entry-year dummies.*** Since this research studies the phenomenon of FDI in a wide range of time, there is a need to control over the effect of year enter since the macroeconomics conditions and other factors, which also affect FDI decisions and performance, also vary from year to year.
- ***Entry-mode choice.*** Entry mode choice is perceived to have a significant impact on FDI survival (Shaver, 1998). However, in this paper, due to data unavailability, entry mode choice cannot be control properly. This issue will be discussed later in the section of limitation.

3.1.4 Validity

External validity

External validity concerns the generalizability of the research. This paragraph addresses the context of external validity or transferability. Transferability concerns if the findings are applicable to another context (Brymann & Bell, 2015, p. 84). First and foremost, with a focus research object of FDI in Africa, we have selected the best possible database, Orbis, to work with. The database presents the data for foreign companies in Africa which is our target. However, due to the limitation of data availability, in this study, the convenience sampling approach has reduced the level of generalizability since the selected sample does not fully represent the total population. It is reasonable that the companies with more data available are indeed having better performance as compared to ones lacking data. Therefore, the exiting rate of the shortlisted sample is just nearly 5% in comparison with nearly 16% of the population. This matter leads to one limitation of this research and reduces the level of external validity. However, the contribution can be seen to the extent that

the sample is representative towards the more successful firms within the population.

Construct validity

Construct validity, or reliability, according to Brymann & Bell (2015) refers to the consistency of measurement of a concept. In other words, it concerns whether the indicator measures the purpose well enough (Brymann & Bell, 2015). The minimum requirement is that researchers develop a new measure, which apparently reflects the content of the concept in our thesis. To ensure this, we may use the “triangulation method” used by Brymann and Bell (2015). The information collected through various methods can be validated, then can assure the validity of the research. The method may be used to cross-validate data and ensuring the validity of our data. Therefore, the factors of stability, internal-reliability and inter-observer consistency need to be addressed (Brymann & Bell, 2015). We must be confident that the results relating to the measure of our sample do not fluctuate and the index is correct (Brymann & Bell, 2015). The element of subjective judgment is very involved in such activities of data collection (Brymann & Bell, 2015), where we need to avoid too subjective judgement of the data before conducting the analysis. We and other researchers should be able to replicate a similar dataset and draw similar findings. The biggest concern for the construct validity is the use of job creation (and capital inflow) as a representative indicator of FDI legitimacy when HCID is very low. However, this use is well supported by theories. To sum up, other than that, each of our measures is well-reasoned with backing from prior literature. Thus, it can be said that these variables are measured in the way they intend to be with a high level of accuracy.

3.2 Case study

In order to strengthen the findings, we have performed a case study consisting of two interviews with industry experts regarding FDI in Africa for some reasons. As illustrated above, the quantitative part tends to employ a deductive research approach with the purpose of prolonging the existing theories of FDI survival. We believe that interviews will provide a more inductive and exploratory approach towards our thesis. For that reason, it is beneficial to acquire some case researches to justify the hypotheses, and well as to acquire some insight in the context of FDI

survival in Africa. In addition, the insights from the cases may bring some implications for the future research.

The approach of case study is very popular and widely used in research, especially in business research (Eisenhardt and Graebner, 2007), and there are many of the well-known studies in business and management research are based on this design. When in order to obtain relevant knowledge of individuals, group organizational, social, political, and related phenomena, case studies have been used in many situations as a research strategy (Yin, 2003). Following the same purpose, we conducted a total of two interviews, though we wished to have more than that, to gain insights, provide new findings, and fill the gaps in our findings from the quantitative analysis.

3.2.1 Interview

When selecting a business research interview, we aim to elicit all manner of information; interviewees' own behavior, attitudes, norms, beliefs, and values towards the topic (Bryman & Bell, 2015). When conducting an interview, there are two different methods: structured and unstructured interviews. The unstructured interviews are based on the researcher uses an aide-mémoire as a brief set of prompts to him or herself to deal with a certain range of topics (Brymann & Bell, 2015). Structured interview is a standardized one which entails the administration of an interview schedule by an interviewer. We selected the approach with a semi-structured approach. This is a term where the interviewer has a series of questions that are in the general form of an interview schedule but can vary the sequence of the questions (Bryman & Bell, 2015). However, there are weaknesses associated with qualitative interviews. The construction of the questions may be poorly set up, where the researcher could already make up their opinion on the subject beforehand or that the respondents state the researcher what he or she wants to hear (Yin, 2003). The element of trust is important when conducting interviews, then the element must be built up. Therefore, the first sample was based on our existing business network. Another element is the time pressure, which can cause the informant during the interview. Some respondents may come up with answers that are not fully through or hold back information due to lack of time to think through the answer. To avoid these problems, we send the questionnaire in advance, where the respondents may have thought beforehand. Another principle to consider is a criterion list on to behave when conducting interviews. Kvale (2007) elaborates a

suitable list that every interview should apply to. Therefore, we will follow these ten steps thoroughly. These points must be considered and avoided when we constructed and conducted the interviews during the research project.

3.2.2 *Selection of respondents*

Addressing the validity of the findings in the survey, the researchers must be able to explain which sample the study is based on. This is to justify the basis upon which the results are based. First of all, researchers need to address who should be interviewed, how many of them, according to which criteria, and which central questions need to be addressed. We sought to use the findings in the interviews that had any correlation with the findings from the quantitative analysis. Therefore, we decided that some requirements needed to be approved, if the respondents were able to contribute towards our research proposal.

The following requirements the informants had to fulfill:

- The informants need to have experience and knowledge about foreign direct investments in general and in Africa.
- The informants need to have been on a software development project using agile methodologies.
- The informants must have to have a specific role in the investment, either as a consultant, investor, or employee.
- The informants must have to have basic knowledge about conducting business in Africa.

When these requirements were fulfilled, we would invite each interview object either by e-mail or telephone. Thanks to a broad network at BI-alumni, we were able to contact several persons who had experience performing FDI in Africa and end up with two potential ones. One of the respondents had experiences as a consultant on IT-project, where the other was an advisor towards the top management team for an international company.

Before every interview, we introduce the interview objects that they would contribute towards the study and gave them a short introduction to the study. Then each respondent consented orally and in writing form. We elaborate a letter of information in compliance with the NSD framework for interviews, which the respondents agreed to be recorded. We store the audio files on a separate data

planner with a separate code, which would be deleted when the research project was complete.

3.2.3 Validity and reliability

The two criteria's reliability and validity are in establishing and assessing the quality of research for the proposed thesis (Bryman & Bell, 2015). It will be important to ensure both the criteria and there are several things to consider. Comparing validity and reliability towards a quantitative and qualitative analysis, there are some differences regarding the selection, collection, and interpretation of data. Qualitative research provides textual data from interviews and questionnaires, which are non-numerical data (Bryman & Bell, 2015). While quantitative research provides numerical data.

Regarding the qualitative research approach, there is some negative concern related to the researcher subjectivity, which may affect the collection of the data. It will be important to ensure the findings from the data can be viewed as credible and trustworthy (Bryman & Becker, 2012). To ensure that our standing is as objective as possible, the interviews were structured with open questions. We sought more to hold a conversation rather than an interview with respondents, using the format of a semi-structured interview guide. This led to a more open conversation, in which the respondent spoke more in-depth about the topic and answered some questions we had intended to ask later in interviews

4. Findings

This chapter will address the findings from both research methods with the data analysis. The findings will then be presented accordingly to the quantitative analysis, with the case study analysis as supporting contribution. Then, we will compare the two methods and see if there is a similarity or difference of the two separate findings.

4.1 Quantitative findings

Table 1 presents the descriptive statistics with the correlation coefficient among the shortlisted variables. In fact, this table does not include the variables that were dropped in the modeling process if they reduce the level of model fit or if they are presented implicitly via other variables.

The results of the Cox Proportional Hazard models are reported in table 2 including the parameter for the model fit. In each model, the coefficients of the independent variables as well as the control variables are reported. In some models, when the number of observations is large enough, the data allows us to include the industry and entry year dummies while the other does not. These dummies are reported as “Industry effect” and “Entry year effect” in the table. First and foremost, we used model (1) to test for the effects of all control variables, including the industry and entry year effects as the dummies, to check the overall model fit. Since Global and African experience are explanatory variables, their impacts were ascertained through prior literature, we see a need to control this impact in all other models to ensure the model fit.

Model (2) tests the linear effects of the main independent variables towards the survival of FDI by including HCID to model 1. Since the HCID is very skewed with the number of the local firm in the same industry ranging from 0 to 154.012 firms, we do need to convert it into a logarithm form. We can see that the effect of HCID in this model is extremely statistically significant with $p < 0.001$. However, with a positive coefficient, this model implies that the higher the number of local firms, the higher the exiting rate of a foreign subsidiary. Thus, H1 is supported. The positive coefficient of Log_HCID as 0.540 implying that with a 10% increase in the number of the local firm in the industry, the hazard rate of the focal FDI increase 5.3%, since $\exp(0.095 * 0.054) = 1.0526$.

Hypothesis 2a is a tested model (3), (4), (5), and (6). While model (3) adds on job creation and (4) just simply adds the interaction of HCID and Job Creation, model (5) and (6) apply split-sample analysis to address the moderating effect of Job Creation when HCID is very high or very low. Since the standard deviation of the HCID is larger than the mean due to skewness of the variable, we decided to take the first quartile as representative of low HCID. This gives us 209 observations with HCID equal to or below 46 focal firms in the same industry. The last quartile is taken to present the high HCID with 279 observations larger than 1152 domestic firms. While in general, model (3) does not show a significant independent impact of job creation towards FDI survival in general, model (4) show a moderating effect of Job Creation towards the relationship of HCID and FDI survival by the negative coefficient of the interaction. The effect is significant at $p < 0.05$. Accordingly, job creation weakens the negative relationship between HCID and FDI survival. In

other words, in a given level of HCID, an increased number of job creation increases the likelihood that an FDI will survival. For example, when HCID is 1000, if job creation increases by 1000 unit, it will increase the likelihood and this interaction have been proved to have a positive statistically significant impact on FDI survival with $p < 0.01$. Thus, hypotheses 2 is supported with the results showing the job creation can help to improve FDI survival although the coefficient is small, indicating a weak impact of job creation towards FDI survival in general, model (4) show a moderating effect of Job Creation towards the relationship of HCID and FDI survival by the negative coefficient of the interaction. The effect is significant at $p < 0.05$. Accordingly, job creation weakens the negative relationship between HCID and FDI survival. In other words, in a given level of HCID, an increased number of job creation increases the likelihood that an FDI will survival. For example, when HCID is 1000, if job creation increase by 1 unit, it will reduce the likelihood of exit of the focal FDI by 0.28% since $\exp(\ln(1000) * 0.0004) = 1.0028$. However, from the result of model (5) and (6), we can see that the effect of Job Creation show significant in a high level of HCID (model 6), higher than general effect over total observation in the sample, while its effect is not significant while HCID is low (model 5). Thus, hypothesis 2a is partly supported, Job Creation moderately weakens the relationship of HCID and FDI survival, but it is more significant as HCID increase.

Model (7) and (8) are used to test the effect of capital inflow. Due to a shortage of data, these models are run based on a smaller sample of 87 observations with many of them experience non-existent HCID, or $HCID = 0$. Thus, in this model, together with the fact the HCID is not so skew for this smaller sample, there is no need to transform HCID into a logarithm form. In other words, HCID in model (7) and (8) is kept as an original continuous variable. Model (7) uses capital inflow as an independent variable while model (8) includes the interaction between HCID and capital inflow. Neither of the two models show a significant effect of capital inflow. H2b is rejected.

From model (1) results, GDP per capita, and African experience shows significant impacts. However, with positive coefficients, these two covariates possess a negative impact on the survival of FDI in Africa. In fact, we can see that experience of firms doing business globally is not significant in all models while experience doing FDI in Africa significant at $p < 0.01$. Thus, H3a is rejected. With a coefficient

equals to 0.0123, one unit increase in African experience, in other words, one more subsidiary that the parent firm has in Africa, it will increase the hazard rate, or exiting rate, of the focal FDI by 1.2% since $\exp(0.0123) = 1.0124$.

H3b is tested in model (9) by adding the interaction term between experience in Africa and HCID. However, the interaction does not show any significant impact on FDI survival. Thus, H3b is rejected.

Table 2. Correlation Matrix and Descriptive Statistics

<i>Correlation</i>	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
(1) FDI Survival	1										
(2) HCID	-0.119	1									
(3) Capital Inflow	-0.073	0.496	1								
(4) Job Creation	0.052	0.369	-0.197	1							
(5) Global Experience	0.018	0.262	-0.156	0.821**	1						
(6) African Experience	0.231	-0.068	-0.188	0.400	0.662*	1					
(7) GDP per Capita	0.229	-0.280	-0.215	-0.298	-0.091	0.563	1				
(8) GDP per Capita Growth	-0.076	0.085	0.231	-0.376	-0.328	-0.055	0.414	1			
(9) Geographic distance	-0.346	0.425	0.330	0.379	0.420	0.209	-0.235	0.049	1		
(10) Cultural distance	-0.095	-0.659*	-0.461	-0.090	-0.115	0.333	0.501	-0.107	-0.425	1	
(11) Economics distance	-0.335	0.562	0.234	0.405	0.387	0.011	-0.297	-0.346	0.739**	-0.485	1
<i>Descriptive Statistic</i>											
N	1146	1146	96	1146	1146	1146	1102	1076	1146	1146	1069
Mean	0.95	12244.66	5699151	197.65	374.48	26.57	3022.57	0.06	1957.71	0.87	0.49
S.D	0.21	31432.92	2.24e+07	1086	3179.95	234.55	2001.59	0.14	4038.23	2.11	1.00
Min	0	0	1	1	1	1	0	-0.62	0	0	0
Max	1	154012	1.75e+08	24000	39512	2976	17288.86	0.53	15209	11.52	4.98
=** p<0.05 ** p<0.01 *** p<0.001”											

Table 3. Cox Proportional Regression Results with FDI hazard rate as the dependent variable

Models (<i>hi</i>)	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Hypotheses:	(H3a)	(H1)	(H2a)	(H2a)	(H2a)	(H2a)	(H2b)	(H2b)	(H3b)
Split-sample:					(low)	(high)			
GDP per Capita	0.0004* (2.31)	0.0005* (2.28)	0.0005* (2.34)	0.0004* (2.16)	0.0003 (0.57)	0.0003** (2.97)	-0.0008 (-1.63)	-0.0008 (-1.66)	0.0005* (2.27)
GDP per Capita Growth	-6.204 (-1.52)	-5.222 (-0.87)	-5.318 (-0.90)	-3.967 (-0.71)	-0.242 (-0.06)	-6.246** (-2.95)	0.797 (0.19)	0.869 (0.21)	-5.327 (-0.89)
Global Experience	-0.0016 (-1.25)	-0.0021 (-1.48)	-0.0021 (-1.51)	-0.0021 (-1.41)	-0.0146 (-1.31)	-0.0014 (-1.39)	0.0612 (0.65)	0.0934 (0.47)	-0.0020 (-1.18)
African Experience	0.0123** (3.03)	0.0122** (2.90)	0.0122** (2.90)	0.0127* (2.49)	0.0237* (2.39)	0.0034 (0.60)	-3.585 (-0.43)	-3.926 (-0.47)	0.0141 (1.20)
Geographic distance	0.0001 (1.65)	0.0001 (0.69)	0.0001 (0.73)	0.0001 (0.70)	0.0010 (1.52)	0.0000 (0.66)	0.0004 (0.26)	-0.0015 (-0.29)	0.0001 (0.66)
Cultural distance	-0.258 (-1.75)	0.0271 (0.16)	0.0252 (0.15)	-0.113 (-0.57)	-0.344 (-0.88)	-0.0270 (-0.23)	2.206 (0.54)	6.725 (0.42)	0.0275 (0.16)
Economics distance	0.808 (1.83)	0.547 (1.14)	0.534 (1.10)	0.462 (0.92)	-3.370 (-0.95)	0.576* (1.96)	-4.381 (-0.53)	-9.115 (-0.46)	0.551 (1.14)
Industry effect	Yes	Yes	Yes	Yes	No	No	No	No	Yes
Entry year effect	Yes	Yes	Yes	Yes	No	No	No	No	Yes
Log_HCID		0.540*** (3.75)	0.535*** (3.75)	0.583*** (3.96)	-1.743* (-2.08)	0.113 (0.81)			0.542*** (3.75)
Job Creation			0.0001 (1.10)	0.0046* (2.57)	0.0149 (1.43)	0.0056*** (3.31)			
Log_HCIDxJC				-0.0004* (-2.51)	-0.0045 (-1.24)	-0.0005** (-3.26)			
HCID							0.0000 (1.69)	0.0000 (0.24)	
Capital Inflow							0.0000 (-0.66)	0.0000 (-0.68)	
HCIDxCapital Inflow								0.0000 (0.40)	
Log_HCIDxAE									-0.0004 (-0.17)
N	1021	1017	1017	1017	209	279	87	87	1017
Exits	43	43	43	43	5	32	9	9	43
Log likelihood	-151.6	-141.0	-140.5	-137.2	-10.40	-142.5	-26.21	-26.15	-141.0
Chi-squared	236.7	257.6	258.8	265.3	30.11	35.39	17.60	17.73	257.7
Degree of freedom	128	126	132	132	10	10	9	9	61
Akaike's IC	559.2	534.1	545.0	538.5	40.80	305.1	70.42	70.30	404.1

t statistics in parentheses

=* $p < 0.05$.

** $p < 0.01$

*** $p < 0.001$

Robust check

In this section, the process of checking the robustness of our research the result will be discussed. We begin with running all the models again using logistic regression – another method to perform survival analysis with binary outcomes. Secondly, we tried to add more firm-specific variables to the model to ensure the endogeneity of the FDI as many as we can. Though we tried to include all possible variables, there is still some imperfection which will be discussed in limitation.

First of all, the logistic regression model (logit model) with a binary outcome of the observed FDIs as a dependent variable has been performed to check the results of the Cox Proportional Hazard models. In fact, the findings from the logit models are similar to what have found in Cox's ones. Besides, we also run different models with different sets of variables to make sure what was used is at the best level of model fit.

On top of that, there is a need to discuss the endogeneity of FDI in Africa. In fact, the choice of entry to a particular host country of an FDI is a self-selected strategy. Principally, before entering a foreign country, an FDI must consider the HCID as well as their own ability to overcome the liability of foreignness. Thus, it is more endogenous than exogenous (Shaver, 1998). In this paper, the fact that we cannot control the entry mode properly, thus do not address the endogeneity of FDI accurately, has reduced the robustness of the models. Instead, we trying to include as many firm-specific variables as we can. For example, the prior research also shows that the larger the parent size of a foreign affiliate, the higher the likelihood that the FDI will be divested (Hennart, Kim, & Zeng, 1998). Accordingly, we try to implement related variables, which are described below:

- **Parent Total Assets** is measured by the total assets of the parent company of the FDI with the unit of thousand \$US.
- **Parent Total Employees** will be measured by the total employees of the parent company of the FDI.

These two variables allow us to address the size of parent companies. However, there are only more than 200 observations in the sample that can be provided with these variables. Tentatively, we run the model with the two variables, but it reduces

the level of model fit and does not allow us to control industry and entry year dummies. Thus, they are eliminated from the final models.

4.2 Case study findings

Regarding the case study approach, in this section, we will give a brief review of each interviewee and their experience that either directly or indirectly answers our research question. Then, their valuable insights will be analyzed together with the quantitative findings regarding the hypotheses. Some of the novel insights that are not included in the hypothesized scope but relevant to FDI survival will also be reported for future research.

In the literature review, we discussed different theories regarding FDI survival. These theories were formed into the questions in the questionnaire. Thereafter, we divided these questions into four categories: introduction, mode of entry, host country environment, and operation factors. These categories will provide a theoretical framework for our findings in the quantitative results, where some of the findings in the interview has been supplemented.

Oil 1

The first interviewee candidate had extensive experience on the African continent where he had experience from two different investments as two distinct companies. One of the companies was an accelerator with a greenfield investment in Kenya, which assist start-ups and finds potential investors for them. The respondent current position is CEO Advisor to an oil company who recently settled in Ghana in Africa with the approach of an acquisition investment. The Oil company established a joint venture with a local partner in Ghana. The interview was focused more on the specific oil project and the respondents experience towards this specific investment.

Banker 1

The second interview candidate is Senior VP for a large international bank, where the candidate was part of the implementation of data systems in African Banks in Mozambique and Tanzania. The candidate is now leader for the emerging markets accounts and responsible for international banking at his current firm. The interview would then focus on the experience of the establishment of the branch in Tanzania.

Regarding the four categories in the questionnaire, the “operational factors” findings from both candidates provide the most impact towards explaining the

research question and the hypothesis since it explains the importance of legitimacy as well as the challenge the firm had to cope with in the legitimation process.

Operational factors

Regarding the operational factors, we mainly ask for establishing legitimacy while the FDI already entered the host country. Accordingly, Banker 1 emphasized on the aspects of operating with open playing cards, be perceived as an actor with good reputation and seriousness. Avoiding the actions that solely focus on extracting the short run benefits from the host country and be perceived as an actor with broad and extensive experience for the long run, made the FDI become more legitimated. Oil 1 emphasized on the connection between the operational factors, where all of them are important. The operational factors, such as job creation, operation revenue and capital inflow are all tangled up, which again creates legitimacy in the long run.

(...) I would say that it [legitimacy] is a very important factor, that you play with open cards and that you are perceived as a serious player and play with all parties. Africa is complex and it is quick to make mistakes and if you tread wrong at first, you are probably done, either that you are taken locally or that you get such a bad reputation worldwide. Important that you always keep your path clean. (Banker 1)

&

(...) I think it is really crucial to succeed in the long run then, you can do some shortcuts and such, but I think in the long run you get bonds that you do not want and that make it impossible for you to make money and operate gradually. You may be able to get faster operations license, and you can get more done for in I a short time perspective. However, in the long run the ties and connections will enable you to operate ethically. (Banker 1)

&

(...) All of them! All of them are important, since they are all tangled up. You cannot create jobs without having the money, and you cannot extract resources without technology. (Oil 1)

Key challenges

Regarding the other three categories in the questionnaire, we selected questions to gain insight and establish a context behind FDI investments on the African

continent. The questions provided an overall foundation of opportunities and key challenges related to FDI in Africa. We believe the findings related to “host country environment” may shed new light towards the research question and the environment for FDI in different African countries. On the other hand, the three categories in the questionnaire pinpoints the key challenges and opportunities the FDI encounters in Africa

Host country environment

Host country environment is essential factor to overcome for FDI survival, based on both interviewee candidates’ previous experiences. Both interviewee candidates have had experienced difficulties, regarding political and economic policies of the host country environment. We will highlight these challenges and discusses them accordingly as obstacles to overcome FDI survival. These findings will provide a general context of FDI investment.

Oil 1 explains the host country environment is sector specific industry. There are few companies operating in the market and most of them are large foreign actors. One of the obvious reasons is the oil market in Ghana is quite newly establishment, which is controlled by dominating and R&D focus actors. This market structure seeks to be similar towards an oligopoly which is a market structure where a few firms dominate (Economics online, 2020). However, there is a possibility that many small firms operate in the market, more in the contractor in the smaller margins. This market structure is very common in industries such as cars, steel, aluminum and oil. While Banker 1 emphasized on the vast different cultures from each countries business environment. With Arabic business culture in the north, to a French influenced business culture in the western countries and down south where they have a more European business culture.

(...) the culture differences are vast different from north with an older Arabic business culture, to south-Africa where they have a more European business culture. You notice when we operate with different banks across Africa, the business culture is vastly different and affects the interaction. Some actors will respond to you directly, where some place would never answer you. (Banker 1)

&

(...) The industry is a bit cooperative and on the same time we cooperate. The major player in the industry have formed an industry organization. Where we used to lobby the government for things that we think are important for the industry and bring the voice where group of company coded together are stronger than one company going along. (Oil 1)

5. Discussion

The fifth chapter will address the findings presented in the previous chapter with relevant academic literature and theories, which we reviewed in the second chapter. In this section we will discuss the findings from our quantitative and case study analyses, together the proposed hypotheses. Therefore, we will address the research question and discuss it accordingly:

How and when does a lack of host country industry development influence FDI survival in Africa?

5.1 HCID, legitimacy and FDI survival

As discussed earlier, legitimacy is confirmed as a vital condition towards FDI survival in the host countries (Lu & Xu, 2006; Meyer & Sinani, 2009). This view is also supported by our case study findings that the Oil 1 with his vast experience in Africa respondent strongly confirmed legitimacy as a “very important factor” with details reported in case study finding section above. Oil 1 stated that achieving the status of a company as prestigious company is important. Oil 1 meant that most prestigious companies will acquire the best talent and investors. Banker 1 stated firms who take the longer run, play by the books and shows the importance of being received as a professional actor would win in the long run and acquire legitimacy. Africa in general is complex and one wrong step may set the reputation and company out of position. In conclusion, the importance of acquiring legitimacy is highly relevant with the findings in the qualitative study. Thus, there is reason to believe that, legitimacy towards FDI in Africa is indifferently as important as elsewhere across the globe.

The importance of the local partners is important to acquire and gaining legitimacy as it can be exchanged or transacted among parties (Pfeffer & Salancik, 1978). Spillover effects and knowledge effects were illustrated in the paper of Sinani and Meyer (2004) that FDI bring advantages to the local industries in form of

knowledge, technology and contributing to the host country economic development. Banker 1 said the implementation project of the national bank was able to raise the standard of banking system. Parallel projects from Danish authorities made the situation more progressive and the Tanzania banking sector become more commercialized from the foreign aid. The spillover effects made the employees become more effective in their work, which lead to higher output and more access to loans for people and companies. However, it stated cleared in the literature that FDI spillover effect depends exceedingly on the context the FDI are interacting with (Blomström & Kokko, 1998). Furthermore, the case study findings emphasized the inter-organizational linkages with highly legitimated partners is vital. Oliver and Baum (1991) stated the inter-organizational linkages with highly legitimated partners can help to increase FDI survival on its own. However, if the HCID is low, the FDI may struggle to find a suitable and legitimated partner based on Oliver and Baum's research (1991). Dacin et al. (2007) defined partners as the main source of all legitimacy types, including market, relational, social, and investment legitimacy. From the findings, both interviewee candidates mention the collaboration between a local player and FDI itself. Banker 1 emphasized on choosing the right and legitimate partner, where Oil 1 said the international actors collaborated to seek favor from the government.

(...) Choosing a partner [...] is important. It depends on the structure and which country, since there are many different requirements. Some countries in north Africa with Arabic business culture, you may not be allowed to own a local company. While in very many other countries in Africa, where you are obligated to have a local partner to be allowed to establish your company. It is important to choose the right partner and spend time on it, I think maybe that's the number one success factor. (Banker 1)

However, this circumstance may result in no-entry of FDI rather than “there is entry but with a high exit rate”, if an FDI seek for legitimacy from a close relationship with partner. It can be simply explained as there is nobody, or limited legitimated firm, in the local industry to form a joint venture with.

In the literature review section, the paper has figured out the mechanism of the legitimation process, particularly depending on the condition of HCID. Accordingly, when HCID is low, or the host country is underdeveloped in general,

it may be difficult for an FDI to gain legitimacy from other industrial participants in the host country via interaction as well as limited FDI spillovers. Indeed, the Oil 1 interviewee has confirmed the importance of local firm in the same industry:

(...) The industry is a bit cooperative even with a union as an industry organization, which we used to lobby the government for things that we think are important for the industry and bring the voice where group of company coded together are stronger than one company going alone. (Oil 1)

This phenomenon as Oil 1 mentioned may refer to collective legitimacy of the whole industry as reviewed above (Sharfman, Gray, and Yan, 1991). Apparently, the “collective legitimacy” can only be achieved if HCID developed to a certain level. Collective legitimacy of the whole industry is more relevant towards Oil 1 statements, which stated that the international oil companies collaborated to lobby the government and gain advantages. On top of that, referring to Meyer and Sinani’s work (2009), it is suggested that legitimacy of a foreign-owned firm, which is associated with increased FDI spillovers, may increase as HCID increases. Thus, it seems that legitimacy is important, and it seems to associate with HCID. However, though it is very important, is legitimacy sufficient to ensure the survival of an FDI?

This paper has evidence to argue that legitimacy itself is not enough to ensure survival of an FDI, though it helps, to some extent. First and foremost, as hypothesis 1 indicated, legitimacy increases thanks to increased FDI spillover as HCID increases cannot be the dominant explaining factor towards FDI survival. It was projected in H1 that competition effects have a larger impact on FDI survival thus FDI is less likely to survive as HCID increase (De Backer & Sleuwaegen, 2003; Spencer, 2008). The quantitative results have found support for this hypothesis. Thus, the level of legitimacy increased due to knowledge and technology spillovers, as well as by demonstration effects cannot compensate for a high level of competition in an industry that has many local firms to compete with. Indeed, the Oil 1 admitted that it was at easy for not having many competitors in the country but instead can view the firms in the same industry as partners:

(...) The industry is new in Ghana and the industry is about 12 years old, which makes it new and there are two main players in their country. Though we can call them competitors, we don't. They are potential partners (...). (Oil 1)

Therefore, it is more likely for an FDI firm to survive when there are no or very-small number of local firms in the same industry. This matter can be explained as with limited competition, it may be easier for an FDI to access to its vital resources which secure their competitive position. The reason for the increased likelihood of survival is that the competition can be viewed as different firms vie for a common pool of resources (Baum & Korn, 1996), and there are some limited resources that are decisive to survival foreign firm, according to resource-based view by Barney (1991). In sum, in Africa, when there are many rivals within an industry or an industry has a high level of HCID, the FDI is more likely to exit due to competition effect.

5.2 Job creation, capital inflow, HCID, and FDI survival

In literature review section, it was projected that when HCID is low, the legitimation process cannot rely on interaction of a focal FDI with the other local firm in the same industry with knowledge spillovers and demonstration effects. Thus, we expect that the job creation and capital inflow which increase the welfare for the host countries will contribute to the establishment of legitimacy of the focal FDI. In fact, this is explained in the literature review with the mechanism of legitimation process such that legitimacy can be gained through other constituents in the host country rather than only other firms in the same industry (Dacin et al, 2007). These constituents of a foreign firm's legitimacy can be the local people who was employed by the focal FDI as indicated with job creation. In a more general view, as an FDI, the firm with bring capital into the host country and incur many capital and operational expenses here, thus, indirectly contribute to social welfare of the country. Indeed, the capital inflow does contribute to increased GDP, and GDP per capita, of the host country. For these reasons, it was expected that the job creation and capital inflow will moderately weaken the negative relationship of HCID and FDI survival, especially when the HCID is low, as stated in hypotheses 2a and 2b.

In fact, the interviewees have strongly confirmed the importance of job creation and capital inflow as indicated in the previous section of case study findings. However, the quantitative results show limited support towards the statements. First, the model (4) show that the job creation has the moderating effect such that it weakens the negative relationship between HCID and FDI survival. In other words, job

creation somehow contributes to increased survival likelihood of FDI as HCID increased. However, model (3) shows that the impact of job creation *per se* on FDI survival is not significant. On top of that, it is interesting that the impact of job creation does not significant when HCID is low but more significant when HCID is high, as shown in the split-sample analysis in model (5) and (6). This finding can be explained in the sense that when facing the high competition and any FDI can has quite the same level of knowledge spillovers and demonstration effect, job creation can play a add up on legitimacy of the FDI thus increase it likelihood of survival. However, when HCID was low, the likelihood of exit is low together with no spillovers, job creation makes no helps to increase the survival of FDI. This finding is in accordance with finding from model (3) that job creation itself does not have a strong and significant impact on FDI survival.

In contrast, though is confirmed as having impact on FDI performance in the host countries but the case study respondents' states that job creation, revenue, experience and capital inflow is important to obtaining legitimacy. However, there was no significant evident from the quantitative results. The impact of capital inflow towards host country welfare may not be as not direct as job creation. For that reason, capital inflow seems to make no contribution for the firm legitimacy, thus no impact towards FDI survival.

In sum, while capital inflow does not show any significant impact, job creation is proved to have impact such that it weakens the negative relationship of HCID and FDI survival, especially when HCID is high.

5.3 Experience, HCID, and FDI survival

Though it was supported firmly from the previous literature that experience doing FDI does have a significant impact towards FDI survival (Delios & Henisz, 2003; Kostova & Zaheer, 1999; J. Lu et al., 2014; Shaver et al., 1997; Zaheer & Mosakowski, 1997). This paper attempted to employ both FDI experience in global scope and in Africa only as the independent variables in the quantitative models. Other than that, the paper also aims to test the moderating effect of experience in different context of HCID towards FDI survival. This way of modelling allows us to take a few steps further from the traditional pathway of studying the impact of experience on FDI survival. However, the result of the quantitative model indicates that the higher the number of subsidiaries a parent firm has in Africa, the higher the

likelihood of exit towards the focal FDI. Thus, this result does not imply that it contradicts to what has been found in the literature but raise a question regarding the validity of the variable. First and foremost, the number of subsidiaries is not taken prior to the founding year of the focal FDI but at the latest available year of the parent companies. For that reason, it presents the scope and intension of the parent company in doing business in Africa rather than their real experience before doing the focal FDI. Thus, if a parent companies has many subsidiaries to take care of in Africa, it may increase the exiting likelihood for any one of them. It can be explained in the sense that the resources pool of the parent company is limited and when there are many of the subsidiaries in Africa which vie for that resource pool, it increased the competition within the organization. Thus, the exit rate is higher due to lack of vital resources from the parent company. On top of that, when there are many alternatives in Africa, it is also easier for the parent company to decide on withdrawal. Essentially, Bradley, Aldrich, Shepherd, and Wiklund (2011) have shown that the mortality rate of a subsidiary is higher that an independent organization.

Furthermore, the model (9) has shown there is no interaction effect between experience, or the scope of investment in Africa, if we could say so, and the HCID towards FDI survival. Though the coefficient of the interaction term does not significant, we still try to perform slip-sample analysis as we did with Job creation, the results also do not show any significant impact for the interaction term. Thus, the impact of the number of subsidiaries which a parent companies has in Africa does not moderately impact the relationship between HCID and FDI survival.

6. Implication and Conclusion

The following chapter clarifies the practical and theoretical implications of our thesis, where we discuss what we have learned and what we have contributed to the research scheme as well as to the practice of performing FDI in Africa. At last, the research question will be concluded and answered, based on the previous chapter discussion.

6.1 Theoretical implications

We discuss the theoretical implication of our paper by recall the research gap that we have clarified earlier: there are limited understanding on how an FDI acquire

legitimation when there is limited spillovers effect as in the context of no or very low HCID. As mentioned earlier, legitimacy, which is a vital condition towards FDI survival, can be established by the interaction with the other companies in local industries (Dacin et al., 2007; Lu & Xu, 2006; Meyer & Sinani, 2009). The literature has shown that when HCID is low, it will be difficult to gain legitimacy thus reduce the chance of survival to a focal FDI (Dacin et al., 2007; Meyer & Sinani, 2009; Oliver & Baum, 1991; Sharfman et al., 1991). In particular, our findings have clarified the relationship between HCID and FDI survival in Africa not only through the lens of legitimacy but also in the lens of competitions. The main findings showed that as HCID increase, FDI is less likely to survive in Africa. By this result, the paper has adding to literature towards the role of legitimacy on survival of an FDI, especially in Africa. The result indicates that when there is no or very-low HCID, FDI in Africa is most likely to survive though it has been emphasizing strongly in the literature that when HCID is low, it is more difficult for a firm to attain legitimacy. The novelty of our paper that adds to the research area is that, though it is important, legitimacy is not enough to keep the firm survive. Though legitimacy of a foreign firm may increase, the exit rate still increases as HCID increases due to the high level of competition. This result also opens other new directions for research that will be discussed later in this section. In the case study we addressed legitimacy, where both respondents addressed the importance of acquire legitimacy in the local environment. Therefore, we believe the master thesis provides a general context of the importance of acquire legitimacy.

To the best of our knowledge, there was not any previous study that integrated job creation and capital inflow to measure the survival of FDI, especially on the African continent. Due to the limited studies on integrating job creation and capital inflow as variables, we had limited theoretical framework to compare. Overall, the result shows that, though there is limitation, under certain circumstances, job creation can help to increase survival of FDI.

Last but not least, our study has shed light on FDI in African context where we have very limited understanding. The quantitative models have employed many control variables which present the institutional distance between the home countries and the host African countries of the FDIs. Indeed, our case study has confirmed that the host countries environment in Africa imposes many challenges that hinder the survival of FDI in the continents.

6.2 Practical implications

Taking African host countries as the context of this research, our paper has shed light on FDI in Africa. The deliverable knowledge of this paper which benefits society and businesses not only comes directly and solely from the research results but wholly from the conceptualization, literature and situation review of FDI spillover and FDI situation in Africa. To illustrate, the paper has given some interesting insights regarding FDI in Africa such that there is a high level of intra-continent investment (figure 2) and the most invested industry was wholesale and retail. On top of that, there is 16% of FDI exit in Africa, according to the general population. These are meaningful insights that we can mention about Africa. Furthermore, the key finding of the research that helps the process of decision making for FDI in Africa is that, a foreign firm may face a higher level of exit rate once they decide to enter a country with a high level of HCID, though it gives them some favorable conditions to gain legitimacy. However, if they create more jobs in this situation, it will be likely to increase their rate of survival. Thus, this implication is meaningful towards investors who have an intension to perform FDI in Africa.

6.3 Limitations

Though the research has made some interesting explorations towards practical and theory of FDI survival in Africa, there may be some alternative explanations of our research question, if all the limitations are overcome. This section will discuss the gap between the dataset that we have built and an ideal dataset that perfectly may match the research intentions.

Regarding the dataset, one of the limitations is the degree of integration. We rely only on secondary data obtained from the databases of Orbis, World Bank and Hofstede-Insight. The database provided us with numerous information to complete a dataset, but the database had it flaws. Several control variables and performance variables were lacking information to a numerous of the companies. To ensure a complete dataset, we tried to integrate information from the database Corporate Affiliations Lexis Nexis, but the databases differed very in information. The two databases were not able to merge information or add descriptive information to the missing observations. Additionally, several foreign companies had been dissolved, and transformed into new companies. We are therefore limited in our understanding of FDI survival works over a certain time in cultural and physical contexts. Our

study could have been more complemented by using more supportive primary data in form of qualitative data. These shortcomings of data may lead to some limitation in our argument, the validity of the research, as well as the generalizability.

First, in this research, there are factors that limit our internal validity, which refers to the justification that our independent variables are, at least partially, responsible for the variation related to FDI survival as the main dependent variable. First, it is indicated clearly in the literature that entry mode choice has a significant impact on the survival of FDI (Shaver, 1998). Responses of the interviewee in the case study also emphasize the matter of entry mode. Since legitimacy can be exchanged between parties, an FDI in a joint venture may establish legitimacy easier than a greenfield investment. However, we could not control for it since there is no data available for this variable. On top of that, with an example of entry-mode choice, our research has not been able to account for the endogeneity, or the self-selection of strategy (Shaver, 1998), of the FDI which can contribute to the variance of the research result. Instead, the paper has tried to control as many FDI-specific factors as possible based on availability of data. In addition, model (7) and (8) which tested the effect of capital inflow does not provide a high level of reliability and validity since it works on a sample side that are much smaller than the population. Due to a small number of observations, we could not include industry and entry year dummies nor to perform split-sample analysis.

Secondly, limited data and convenience sampling have also reduced the generalizability of our research. Most importantly, the shortlisted sample has a difference with the general population. In fact, within nearly 17,000 foreign companies observed in Africa, the exiting rate was around 16% while this ratio in the sample is just nearly 5%. Consequently, the sample is more likely to represent for the solid FDI in Africa which has data available and has a higher likelihood of survival. Since the dataset was minimized from its original standpoint, we may have lost relevant observations that could have adjusted the exiting rate. We believe the insufficient data availability may affect the generalizability of the study. In a broader term, according to external validity, this research is limited to a continent of Africa where countries may vary in political, geographical and economics context, which can inhibit the generalizability of our findings to another context.

Though the case study also has limitation regarding generalizability. The first limitation is generalizability, when in a multiple case study is limited. Even though we interview two candidates in total, additional interviews would provide additional insight towards the hypotheses. The sample might not be representative for the population, which means we may have unexplored interesting findings and only emphasis on our findings. The sample consisted most over interviewee candidates from Norway, where we do not expect the findings to generalizable to other cultural contexts. Additionally, the number of interviews has been limited and all interviews needed to be conducted over video systems, due to the covid-19 pandemic. Observing body language and interpreting the responds was more difficult in this specific setting. This interview form limits the findings from our data collection. We suggest that future research should extent on a larger sample to minimize possible biases. However, to our best, we moderately believe that our models are presenting the relationship between the independent variables and FDI survival.

6.4 Future research

As indicated in the section above, this study figures out some noticeable findings, though there are many external constraints. However, we believe that with a larger sample, the results will become more reliable, especially when there is data for investment size, or capital inflow, of FDI in Africa. More importantly, another indication is the findings from the case study analysis, where entry mode and host country environment were emphasized a lot. It would have been interesting to control entry mode and host country environments in different variables. Furthermore, there are promising opportunities for other studies to replicate this framework in some industries or some countries in Africa to obtain more specific results implications. Other than that, the future research may focus on a sole or a few home countries of FDI to Africa so that technology gap will be easier to define.

Another approach would to address the entry mode variable in more depth. Future research should focus on how GDP, economic and political conditions were based on the year of entry. Based on these metrics it may shed a different light on FDI survival. Finally, we want to address the metrics of a ranking system of industries. Future research on FDI may be strengthen if a major institution or research agency address the ranking of host countries industries on a global scale. Relevant examples would be the UN and World Banks economics and socioeconomics

rankings. Such system would allow MNEs to evaluate the local host country environment in a better understanding.

6.5 Conclusion

Across the thesis, we have firstly presented the field of knowledge regarding the interaction of FDI with host country environment in Africa. In this section, the theories and literature which are relevant to FDI survival in the host country has been reviewed. The focus of paper was spent on the impact of HCID, together with legitimacy, on survival of an FDI in Africa. Particularly, these theories were reviewed in line with the condition of Africa where many industries' development were really weak or even non-existent.

Thereafter, deduced from reviewed literature, we have elaborated five hypotheses and discussed how different variables affect the survival rate of FDI throughout Africa. The objective of the study was to identify how host country industry development in Africa affect survival rate of FDI. The paper also considers the other moderating effects of job creation, capital inflow, and experience of performing FDI. The linkage towards relevant literature has been conducted, where we aim to connect our findings with other research areas such as institutional theories and FDI spillover effects. The paper applies both case study and quantitative methods to answer the research question. While the case study helps to strengthen the formulated hypothesis and provide more insights into FDI situation in Africa in the consideration of HCID, the quantitative method using Cox Proportional Hazard models gives detailed evidences to testify the hypotheses. Though there are limitation in data sources due to some externalities, the collected data was valid and has basically meets the requirements for the research methods, especially the quantitative data.

Our findings indicate that as HCID increased, the survival rate of FDI in Africa will decrease. While job creation may help to weaken that negative relationship, the study did not find any strong effect of capital inflow and experience on FDI survival. It was unfortunate that the paper cannot control endogeneity of FDI in Africa properly though the literature review and case study findings stated clearly that entry mode choice, as a self-selected strategy, does have a significant effect on the survival rate of FDI across Africa. Although there are some limitations, with our findings, the study contributes to the existing literature on FDI survival by

enhance the mechanism such that HCID affect FDI survival. The findings do enhance the importance of legitimacy via the moderating effect of Job Creation as well as the insights provided in the case study. With the research context, the findings are especially meaningful in Africa since it gives practical implications towards both investors and policymaker in the host country. Therefore, we presume our findings will benefit the field of FDI-host country interaction and support for further managerial decisions for investment abroad in Africa.

7. Reference

- Aitken, B. J., & Harrison, A. E. (1999). Do domestic firms benefit from direct foreign investment? Evidence from Venezuela. *American economic review*, 89(3), 605-618.
- Aldrich, H. E., & Fiol, C. M. (1994). Fools rush in? The institutional context of industry creation. *Academy of Management Review*, 19(4), 645-670.
- Ayyagari, M., Dau, L. A., & Spencer, J. (2015). Strategic responses to FDI in emerging markets: Are core members more responsive than peripheral members of business groups? *Academy of Management Journal*, 58(6), 1869-1894.
- Bain, J. (1956), *Barriers to New Competition*, Harvard University Press, Cambridge, MA.
- Barkema, H. G., Bell, J. H., & Pennings, J. M. (1996). Foreign entry, cultural barriers, and learning. *Strategic Management Journal*, 17(2), 151-166.
- Barney, J. (1991). Firm resources and sustained competitive advantage. *Journal of Management*, 17(1), 99-120.
- Barrios, S., Görg, H., & Strobl, E. (2005). Foreign direct investment, competition and industrial development in the host country. *European Economic Review*, 49(7), 1761-1784.
- Baum, J. A. C., & Korn, H. J. (1999). Dynamics of dyadic competitive interaction. *Strategic Management Journal*, 20(3), 251-278.
doi:10.1002/(SICI)10970266(199903)20:3<251::AID-SMJ23>3.0.CO
- Baum, J. A. C., & Oliver, C. (1991). Institutional Linkages and Organizational Mortality, *Administrative Science Quarterly*, 36, 2, pp. 187-218.
- Baum, J. A., & Korn, H. J. (1996). Competitive dynamics of interfirm rivalry. *Academy of Management Journal*, 39(2), 255-291.
- Bell, E., & Bryman, A. (2015). *Business research methods* (4th edition. ed.). Oxford: Oxford University Press.
- Benito, G. R. (1997). Divestment of foreign production operations. *Applied economics*, 29(10), 1365-1378.
- Bernard, A. B., & Sjöholm, F. (2003). *Foreign owners and plant survival* (0898-2937). Retrieved from National Bureau of Economic Research – The United Kingdom.
- Blomström, M., & Kokko, A. (1998). Multinational Corporations and Spillovers. *Journal of Economic Surveys*, 12(3), 247-277. doi:10.1111/1467-6419.00056
- Bradley, S. W., Aldrich, H., Shepherd, D. A., & Wiklund, J. (2011). Resources, environmental change, and survival: Asymmetric paths of young independent and subsidiary organizations. *Strategic Management Journal*, 32(5), 486-509.
- Bronzini, R. (2007). FDI Inflows, agglomeration and host country firms' size: Evidence from Italy. *Regional studies*, 41(7), 963-978.
- Bryman, Alan, Becker, Saul, & Sempik, Joe. (2008). Quality Criteria for Quantitative, Qualitative and Mixed Methods Research: A View from

- Social Policy. *International Journal of Social Research Methodology*, 11(4), 261-276.
- Buckley, Peter J, & Casson, Mark C. (1998). Analyzing Foreign Market Entry Strategies: Extending the Internalization Approach. *Journal of International Business Studies*, 29(3), 539-561.
- Campbell, B. A., Ganco, M., Franco, A. M., & Agarwal, R. (2012). Who leaves, where to, and why worry? Employee mobility, entrepreneurship and effects on source firm performance. *Strategic Management Journal*, 33(1), 65-87.
- Caves, R. E. (1984). Economic Analysis and the Quest for Competitive Advantage. *The American Economic Review*, 74(2), 127-132. doi:10.2307/1816342
- Chang, S. J., & Xu, D. (2008). Spillovers and competition among foreign and local firms in China. *Strategic Management Journal*, 29(5), 495-518. doi:10.1002/smj.674
- Chen, M.-J. (1996). Competitor Analysis and Interfirm Rivalry: Towards a Theoretical Integration. *The Academy of Management Review*, 21(1), 100-134. doi:10.2307/258631
- Chen, M.-J., & Macmillan, I. C. (1992). Nonresponse and Delayed Response to Competitive Moves: The Roles of Competitor Dependence and Action Irreversibility. *The Academy of Management Journal*, 35(3), 539-570. doi:10.2307/256486
- Cox, D. R., & Snell, E. J. (1989). *Analysis of binary data* (Vol. 32): CRC press.
- Coyne, I. T. (1997). "Sampling in qualitative research. Purposeful and theoretical sampling; merging or clear boundaries?" *Journal of advanced nursing*, 26(3), 623-630.
- Dacin, M. (1997). Isomorphism in context: The power and prescription of institutional norms. *Academy of Management Journal*, 40(1), 46-81. doi:10.5465/257020
- Dacin, M. T., Oliver, C., & Roy, J.-P. (2007). The Legitimacy of Strategic Alliances: An Institutional Perspective. *Strategic Management Journal*, 28(2), 169-187. Retrieved from www.jstor.org/stable/20142430
- Darke, P., Shanks, G., and Broadbent, M. (1998). "Successfully completing case study research: combining rigour, relevance and pragmatism." *Information systems journal*, 8(4), 273-289
- De Backer, K., & Sleuwaegen, L. (2003). Does Foreign Direct Investment Crowd Out Domestic Entrepreneurship? *Review of Industrial Organization*, 22(1), 67-84. doi:10.1023/a:1022180317898
- Delios, A & Makino, S. (2003). Timing of Entry and the Foreign Subsidiary Performance of Japanese Firms. *Journal of International Marketing*, 11(3), 83-105.
- Delios, A., & Beamish, P. W. (2001). Survival and profitability: The roles of experience and intangible assets in foreign subsidiary performance. *Academy of Management Journal*, 44(5), 1028-1038.

- Delios, A., & Henisz, W. J. (2003). Political hazards, experience, and sequential entry strategies: The international expansion of Japanese firms, 1980–1998. *Strategic Management Journal*, 24(11), 1153-1164.
- Deloitte. (2019). Invest in Ethiopia. Deloitte Touche Tohmatsu Limited. Retrieved from:
https://www2.deloitte.com/content/dam/Deloitte/za/Documents/Consumer_Industrial_Products/ZA_Deloitte_Invest_In_Ethiopia_July%202019.pdf?fbclid=IwAR30EhxOHj0U9nJH9UwyYmqyhLTZpwrVWH8UV-Wo9dlIVveplHHqpqMMsek
- Diaconu, L. (2014). The Foreign Direct Investments in South-East Asia during the Last Two Decades. *Procedia Economics and Finance*, 15, 903-908.
- Diener, E. and Crandall, R. (1978). *Ethics in Social and Behavioral Research*. Chicago; University of Chicago Press.
- Dowling, J., & Pfeffer, J. (1975). Organizational Legitimacy: Social Values and Organizational Behavior. *The Pacific Sociological Review*, 18(1), 122-136. doi:10.2307/1388226
- Economics Online (2020). For students of economics – Economics Online co UK. Retrieved from:
https://www.economicsonline.co.uk/Business_economics/Oligopoly.html
- Eden, L. (2009). Letter from the Editor-in-Chief: FDI spillovers and linkages. *Journal of International Business Studies*, 40(7), 1065-1069. doi:10.1057/jibs.2009.46
- Eden, L., & Miller, S. R. (2004). Distance matters: Liability of foreignness, institutional distance and ownership strategy. In " *Theories of the Multinational Enterprise: Diversity, Complexity and Relevance*": Emerald Group Publishing Limited.
- Elsbach, K. D., & Sutton, R. I. (1992). Acquiring Organizational Legitimacy Through Illegitimate Actions: A Marriage of Institutional and Impression Management Theories. *Academy of Management Journal*, 35(4), 699. doi:10.2307/256313
- EPHEA – Overview of the Horticulture Sector, 2020. Retrieved from:
<https://ehpea.org/overview-of-the-sectors-growth/>
- Ernst and Young. (2019). How can bold action become everyday action? EY attractiveness program Africa. EYGM Limited. Retrieved from:
[https://www.ey.com/Publication/vwLUAssets/ey-africa-attractiveness-2019/\\$FILE/ey-africa-attractiveness-2019.pdf](https://www.ey.com/Publication/vwLUAssets/ey-africa-attractiveness-2019/$FILE/ey-africa-attractiveness-2019.pdf)
- European Commission. (2020). List of NACE codes. Retrieved from
https://ec.europa.eu/competition/mergers/cases/index/nace_all.html
- Feinberg, S. E., & Majumdar, S. K. (2001). Technology spillovers from foreign direct investment in the Indian pharmaceutical industry. *Journal of International Business Studies*, 32(3), 421-437.
- Ferrier, W., Smith, K., & Grimm, C. (1999). The role of competitive action in market share erosion and industry dethronement: A study of industry leaders and challengers. *Academy of Management Journal*, 42(4), 372-388.

- Forstenlechner, I., & Mellahi, K. (2011). Gaining legitimacy through hiring local workforce at a premium: The case of MNEs in the United Arab Emirates. *Journal of World Business*, 46(4), 455-461.
- Gaur, A. S., & Lu, J. W. (2007). Ownership strategies and survival of foreign subsidiaries: Impacts of institutional distance and experience. *Journal of Management*, 33(1), 84-110.
- Geringer, J. M., & Hebert, L. (1991). Measuring performance of international joint ventures. *Journal of International Business Studies*, 22(2), 249-263.
- Ghemawat, P. (2001). Distance Still Matters. The Hard Reality of Global Expansion. *Harvard business review*, 79, 137-140, 142.
- Gimeno, J., Peteraf, Margaret A., & Ferrier, Walter J. (2002). The performance effects of unintended and purposive multimarket contact. *Managerial and Decision Economics*, 23(4-5), 209-224.
- Gyimah-Brempong, K. (2002). Corruption, economic growth, and income inequality in Africa. *Economics of governance*, 3(3), 183-209.
- Hannan, M. T., & Carroll, G. R. (1992). *Dynamics of organizational populations: Density, legitimation, and competition*: Oxford University Press.
- Hannan, M. T., & Freeman, J. 1989. *Organizational ecology*, Cambridge, MA: Harvard University Press
- Hennart, J.-F., Kim, D.-J., & Zeng, M. (1998). The impact of joint venture status on the longevity of Japanese stakes in US manufacturing affiliates. *Organization Science*, 9(3), 382-395.
- Hofstede, G. (2001). *Culture's consequences: Comparing values, behaviors, institutions and organizations across nations*: Sage publications.
- IMF. (2013). Balance of Payments Manual, sixth edition. . In: International Monetary Fund
- Kogut, B., & Singh, H. (1988). The effect of national culture on the choice of entry mode. *Journal of International Business Studies*, 19(3), 411-432.
- Kokko, A., Tansini, R., & Zejan, M. C. (1996). Local technological capability and productivity spillovers from FDI in the Uruguayan manufacturing sector. *The Journal of Development Studies*, 32(4), 602-611. doi:10.1080/00220389608422430
- Kosová, R. (2010). Do Foreign Firms Crowd Out Domestic Firms? Evidence From The Czech Republic. *The Review of Economics and Statistics*, 92(4), 861-881. Retrieved from www.jstor.org/stable/40985799
- Kostova, T. (1999). Transnational transfer of strategic organizational practices: A contextual perspective. *Academy of Management Review*, 24(2), 308-324.
- Kostova, T., & Zaheer, S. (1999). Organizational Legitimacy under Conditions of Complexity: The Case of the Multinational Enterprise. *The Academy of Management Review*, 24(1), 64-81. doi:10.2307/259037
- Kvale, S., 2007. *Doing Interviews*. London: SAGE Publications
- Lu, J. W., & Xu, D. (2006). Growth and Survival of International Joint Ventures: An External-Internal Legitimacy Perspective. *Journal of Management*, 32(3), 426-448. doi:10.1177/0149206305281399

- Lu, J., Liu, X., Wright, M., & Filatotchev, I. (2014). International experience and FDI location choices of Chinese firms: The moderating effects of home country government support and host country institutions. *Journal of International Business Studies*, 45(4), 428-449.
- Merton, R. K., & Merton, R. C. (1968). *Social theory and social structure*: Simon and Schuster.
- Meyer, K. E., & Sinani, E. (2004). Spillovers of technology transfer from FDI: the case of Estonia. *Journal of Comparative Economics*, 32(3), 445-466. doi:<https://doi.org/10.1016/j.jce.2004.03.002>
- Meyer, K. E., & Sinani, E. (2004). Spillovers of technology transfer from FDI: the case of Estonia. *Journal of Comparative Economics*, 32(3), 445-466. doi:<https://doi.org/10.1016/j.jce.2004.03.002>
- Meyer, K. E., & Sinani, E. (2009). When and Where Does Foreign Direct Investment Generate Positive Spillovers? A Meta-Analysis. *Journal of International Business Studies*, 40(7), 1075-1094. Retrieved from www.jstor.org/stable/40262844
- Miller, S. R., & Parkhe, A. (2002). Is there a liability of foreignness in global banking? An empirical test of banks' X-efficiency. *Strategic Management Journal*, 23(1), 55-75.
- Mo, P. H. (2001). Corruption and economic growth. *Journal of Comparative Economics*, 29(1), 66-79.
- Nachum, L. (2003). Liability of foreignness in global competition? Financial service affiliates in the city of London. *Strategic Management Journal*, 24(12), 1187-1208.
- Nair, A., & Selover, D. (2012). A study of competitive dynamics. *Journal of Business Research*, 65(3), 355-361.
- Navis, C., & Glynn, M. A. (2010). How new market categories emerge: Temporal dynamics of legitimacy, identity, and entrepreneurship in satellite radio, 1990–2005. *Administrative science quarterly*, 55(3), 439-471.
- Navis, C., & Glynn, M. A. (2010). How new market categories emerge: Temporal dynamics of legitimacy, identity, and entrepreneurship in satellite radio, 1990–2005. *Administrative science quarterly*, 55(3), 439-471.
- OECD. (2008). *OECD benchmark definition of foreign direct investment - 4th Edition*: Organisation for Economic Cooperation and Development.
- Oliver, C., & Baum, J. A. C. (1991). Institutional Linkages and Organizational Mortality. *Administrative Science Quarterly*, 36(2), 187-218. doi:[10.2307/2393353](https://doi.org/10.2307/2393353)
- Orbis. (2020). Companies in Africa Retrieved from <https://orbis-bvdinfo-com.ezproxy.library.bi.no/version-2020529/orbis/1/Companies/Search/By/CountryRegion>. Available from Orbis
- Pfeffer, J., & Salancik, G. R. (1978). *The external control of organizations: a resource dependence perspective*. New York: Harper & Row.

- Porter, M. E. 1980. *Competitive strategy: Techniques For analyzing industries and competitors*. New York: Free Press.
- Robson, Colin. (2002). *Real World Research: A Resource for Social Scientists and Practitioner Researchers*. Oxford: Blackwell
- Rodriguez, P., Uhlenbruck, K., & Eden, L. (2005). Government corruption and the entry strategies of multinationals. *Academy of Management Review*, 30(2), 383-396.
- Root, F. (1994). *Entry strategies for international markets* (Rev. and expanded. ed.). New York: Lexington.
- Ruef, M., & Scott, W. R. (1998). A multidimensional model of organizational legitimacy: Hospital survival in changing institutional environments. *Administrative science quarterly*, 877-904.
- Salomon, R., & Wu, Z. (2012). Institutional distance and local isomorphism strategy. *Journal of International Business Studies*, 43(4), 343-367. doi:10.1057/jibs.2012.3
- Saunders, M., Lewis, P., and Thornhill, A., 2009. *Research Methods for Business Students*. 5th ed. Harlow, England: Prentice Hall.
- Scherer, F. M., & Ross, S. 1990. *Industrial market structure and economic performance* (3rd ed.). Boston: Houghton Miffl
- Schwab, K. (2014). The Global Competitiveness Report 2013–2014 Full Data Edition. Retrieved from: http://www3.weforum.org/docs/WEF_GlobalCompetitivenessReport_2013-14.pdf
- Schwab, K. (2018). The global competitiveness report 2018. Paper presented at the World Economic Forum.
- Scott, W. R. (2014). *Institutions and organizations: ideas, interests, and identities* (4th ed. ed.). Thousand Oaks, Calif: Sage.
- Sharfman, M. P., Gray, B., & Yan, A. (1991). The Context of Interorganizational Collaboration in the Garment Industry: An Institutional Perspective. *The Journal of Applied Behavioral Science*, 27(2), 181-208. doi:10.1177/0021886391272003
- Shaver, J. M. (1998). Accounting for endogeneity when assessing strategy performance: Does entry mode choice affect FDI survival? *Management science*, 44(4), 571-585.
- Shaver, J. M., Mitchell, W., & Yeung, B. (1997). The effect of own-firm and other-firm experience on foreign direct investment survival in the United States, 1987–92. *Strategic Management Journal*, 18(10), 811-824.
- Sinani, E., & Meyer, K. E. (2004). Spillovers of technology transfer from FDI: the case of Estonia. *Journal of Comparative Economics*, 32(3), 445-466. doi:https://doi.org/10.1016/j.jce.2004.03.002
- Singh, J. (2007). Asymmetry of Knowledge Spillovers between MNCs and Host Country Firms. *Journal of International Business Studies*, 38(5), 764-786. Retrieved from <http://www.jstor.org/stable/4540456>

- Singh, J. V., Tucker, D. J., & House, R. J. (1986). Organizational Legitimacy and the Liability of Newness. *Administrative Science Quarterly*, 31(2), 171-193. doi:10.2307/2392787
- Smarzynska Javorcik, B. (2004). Does foreign direct investment increase the productivity of domestic firms? In search of spillovers through backward linkages. *American economic review*, 94(3), 605-627.
- Smith, K., Ferrier, W., & Grimm, C. (2001). King of the Hill: Dethroning the Industry Leader. *The Academy of Management Executive (1993-2005)*, 15(2), 59-70.
- Spencer, J. W. (2008). The Impact of Multinational Enterprise Strategy on Indigenous Enterprises: Horizontal Spillovers and Crowding Out in Developing Countries. *Academy of Management Review*, 33(2), 341-361. doi:10.5465/amr.2008.31193230
- Suchman, M. C. (1995). Managing Legitimacy: Strategic and Institutional Approaches. *The Academy of Management Review*, 20(3), 571-610. doi:10.2307/258788
- The Global Economy. (2019). Political Stability Index Retrieved from https://www.theglobaleconomy.com/rankings/wb_political_stability/
- Tian, X. (2007). Accounting for sources of FDI technology spillovers: evidence from China. *Journal of International Business Studies*, 38(1), 147-159.
- Tihanyi, L., Griffith, D. A., & Russell, C. J. (2005). The effect of cultural distance on entry mode choice, international diversification, and MNE performance: A meta-analysis. *Journal of International Business Studies*, 36(3), 270-283.
- Tsang, E. W., & Yip, P. S. (2007). Economic distance and the survival of foreign direct investments. *Academy of Management Journal*, 50(5), 1156-1168.
- UNCTAD. (2019). *World Investment Report* Retrieved from: https://unctad.org/en/PublicationsLibrary/wir2019_en.pdf
- United Nation. (2019). UN list of Least Developed Countries. Retrieved from <https://unctad.org/en/pages/aldc/Least%20Developed%20Countries/UN-list-of-Least-Developed-Countries.aspx>
- Utoikamanu, F. (2020). Closing the technology gap in least developed countries. *United Nations Chronicle*. Retrieved from: <https://www.un.org/en/chronicle/article/closing-technology-gap-least-developed-countries>
- World Bank – *Chinese FDI in Ethiopia*, 2012. Retrieved from: <http://documents.worldbank.org/curated/en/151961468038140377/pdf/NonAsciiFileName0.pdf>
- World Bank. (2020). GDP per capita (current US\$). Retrieved 2020
- Yin, R. K. (2009). "Case study research: Design and methods. Sage publications." Thousand oaks.
- Young, G., Smith, K., Grimm, C., & Simon, D. (2000). Multimarket contact and resource dissimilarity: A competitive dynamics perspective. *Journal of Management*, 26(6), 1217-1236.

- Zaheer, S. (1995). Overcoming the Liability of Foreignness. *Academy of Management Journal*, 38(2), 341-363. doi:10.5465/256683
- Zaheer, S., & Mosakowski, E. (1997). The dynamics of the liability of foreignness: A global study of survival in financial services. *Strategic Management Journal*, 18(6), 439-463.
- Zhang, Y., Li, H., Li, Y., & Zhou, L. A. (2010). FDI spillovers in an emerging market: the role of foreign firms' country origin diversity and domestic firms' absorptive capacity. *Strategic Management Journal*, 31(9), 969-989.

Appendix 1

Interview: oil 1

Introductory questions

- **What is your job title?**

CEO Advisory for Oil company

PHD candidate - university

- **What is your knowledge/previous experience with the topic we are writing about?**

It comes in two forms.

I have helped couple of companies to move establish in Africa and I have also started a company. So, I cofounded Pangea in Nairobi in Kenya, where we pretty much assist start us and find investors to invest in it. In my current position is CEO Advisor, where my role is to advise the management at Oil Company 1 on their operations across the African continent.

- **What type of investment have you had any prior or current experience with?**

Currently we bought an oil field for a couple of millions of dollars and we're developing it for a couple of billions of dollars and the startup company is a bit different. This investment is not that big regards to the startup. However, the quantity of number of companies there's a lot of them

Mode and motivation of entry

1. **Which was the specific country/countries?**

Ghana and Kenya

2. **What type of categories of investment? Greenfield, M&A, JV, state aid?**

Combination in Ghana. Where it is measured as M&A, where the company acquired an assistant company. In Kenya is a Greenfield company that we started from scratch.

3. **What was the purpose of the investment? Which activities were the FDI conducting? Was the target towards the local market or more export-oriented?**

I would like to focus on that one first purpose of investment is pretty much the parent company wanted to expand their footprint outside Europe, in order notice is a way of managing risk. And a necessary adequate unity to be able to build an oil company in in Africa. That was the main purpose.

- conducting oil and gas exploration
- the oil business I like is it is a global business usually target another export oriented

4. **When entering the new market with the given purpose, what are some success factors that are important for a foreign company to address when performing investment in Africa?**

Venture is it survivor and we're looking at profitability over a long period of time. In our business if it's a bit unpredictable in terms of profitability, because it's driven by the oil price. So, when you when you open the tabs and your prize are lower than your breakeven you might be in trouble. what we do is to look at is a project where the cost does not deviate so much as we planned, so you budget for a project and then go to implementation and if you know that you're on track. That they're not have low deviations there, gives you comfort that what you're doing you will get to you will get the needed did you get performance

Just answer the question of what you plant and especially when it's a long term project where it would take you anytime between 5 to 7 years from the day you found the oil to actually selling it, which means that our consistency that there's no deviation so you go to the financial markets you borrow 4 billion dollars to do this projects and leave the project begins to cause 5 billion dollars Then you feel the project already from the beginning so that sense of consistency and of course we do to get a sense of consistency. It's important that then we feel that the host government or the playing ground rules, and regulations of the host government are stable and predictable, so we can do our business. So, we look at stability and predictability of host government or host rules & laws so called host institutions.

We look at our interaction with the authorities how the how do you receive us, our freedom to operate as a company. That is also important for us and then we look at also of course we as every year goes, we replace the project and see how we can track and if we're not on track what is it that is preventing us from being on track.

Interviewer 1: So, you constantly reevaluate your operations?

You have a project timeline and then you have this evaluation every month you're moving and then you have some activities, so you see which activity is falling apart or falling behind. Majority of critical activities are falling behind; the times is not going for it and then continue happy value to buy or had fallen behind.

If we find out that is something that is outside of our control, maybe because the government is not giving us what we need or the rules on the ground are not as we expected. that makes it a bit difficult for us

Interviewer 2: you mentioned the political stability as a measurement. So how do you measure that before and after you enter the country?

I think when we enter a country, we do an assessment of you know is like any other market entry. So, you only do your PESTEL analysis that is these are the things that comes out. But then once you are there reality is different from what you read in the books.

Employed by political stability we're not talking about wars and people taking guns and roses, we are talking about a government saying that so you cannot use this contractor. You must keep this contract to this company and then you do your due diligence and you find out that his cousin owns the company. Those are what we are concerned about and of course I said regarding the company if you commit those corruption crimes, abroad you will be prosecuted here at home. So you might get away with it in Africa, but when you come to Norway it is different. Few years ago, we have this case about Frederick Taylor guy, he was a pensionist but now he's in prison for eight years, because there was a bribing case in Libya so that are concerns, we try to avoid.

You enter the markets if you are looking for an oil or minerals or any other kind of investment you want to measure that at least there's a basic so a basic framework in the country that makes it OK to enter. And then of course you have the other cultural differences or whatever you want to call it, that you have the other differences or the way they do their business in the country.

Interviewer 1: Are there any differences between the greenfield investment in Kenya towards the M&A investment in Ghana?

The most important of it is that in in Kenya and of course we must also look at the are sector specific differences. One is oil and gas, where every part of the activity is regulated and controlled by the government. And the other one is building started by coinventors, they are doing everything from data finance, online payments, solar energy, smaller companies have more freedom to operate.

Also, the sheer amount of the investment so in Oil Company 1, we're talking about 4.2 billion dollars. The amount of the startups is on whole other scale, around 1 million NOK. In the case, 1mill NOK is very much money for a startup, for that sum you know we taking the jet going down to Ghana once with Oil Company 1.

The difference comes both in terms of the size of the investment, maybe should draw attention it makes. Everybody wants a piece. Another factor is the sector itself. It is a regulatory sector that the government needs to approve every single time, which give additional complexity to the investment

Western company going into an unknown territory which means you also must deal with these authorities as a result of the fact that it is so regulated. If you will start a start-up you can just get a business license

5. What were the main challenges that the firm concerned about when establishing the FDI in that country? How did you overcome these challenges?

In general projects in Africa are very expensive compared to project in Africa. The main reason is that their service capacity of local financing possibility, so when the local banks cannot finance less than 4 billion or 5 billion dollars project, then you have to look outside the continent and when you look outside the continent unfortunately most banks see the African continent as very risky. Which means that day want a higher premium, so you know we now we can borrow if you borrow from the central bank in Norway is around 0%. In Ghana you are talking about 22% so that's one of the financing scarcities is one of the challenges in interest in Africa

Another one is the competence in most cases at least the oil and gas business. Ghana is not Nigeria, Nigeria oil and gas industry have been there for a long time, where several foreign companies have exploited this industry. So, Ghana don't want to experience the same. It's difficult to find the right people with the right competence is deep oil or deep water, very deep. Even the Norwegian company can't do the project we were doing is. Globally is TOTAL who can

do the pressure within, which means that finding local talents is very difficult. You actually have to train them or we have to bring aspects and you don't want to bring us back because it's bad for the local economy but you need to bring us back because you don't have the local people to do it so just chicken I properly so that's one challenge to the competence and that was so I want to say that that was very from sector to sector. If you went construction where you just need people with strong arms to move things and do something you can just find anybody. In complex engineering industries you need 5 years of NTNU education and ten years' experience, then it becomes a more complex situation to hire the right competence in a foreign market.

To sum up: a foreign company needs to address the capital and human capital availability towards the investment. And ensure the political stability is stable before and during the investment.

Host countries environment

6. How do you describe the development of the local industry in the target country? How did you evaluate the host country competition in the market?

Firstly, the Oil project. The industry is new in Ghana and the industry is about 12 years old, which makes it new and there are two main players in their country. We can call them competitors, but we regard them as potential partners because of the industry specificity. In oil and gas so anyway, you have an Oil company 1 are working together with Equinor at the same field and so it's pretty much going together. Because it costs so much that is good for you to partner with somebody.

We play in the local competition and playing in the global competition yeah and the difference come in like this the global competition you play in when you are bidding for the blocks. So when you're giving out oil blocks any company can apply for it and that's when the global competition comes in. So, if you have if Exxon Mobil one that block then of course a small company like nothing can just buy it and shut it down to Win the block

If they are in a need for a block which means that one is a fierce competition. Once you win the block, then of course you want to partner with the ones who already there. One example is; there's a drilling machine next to you, you want to be able to borrow this machine instead of hire one from Singapore. Cause you're paying \$500,000 a day for shipping it there. So, if it takes them three months to come there multiplied by how much it costs, so this is very expensive. You want a good relationship with the people around you. If they have a drill and a drill out there, then you propose; how 'bout you extend your contract for two weeks, because we want to drill here so we can

The industry is a bit cooperative and we have a union or not in union, is an industry organization. Where we used to lobby the government for things that we think are important for the industry and bring the voice where group of company coded together are stronger than one company going along.

7. How do you make a comparison of this industry development in the host country and other countries in Africa?

Interviewer: If there are more companies operating in the same industry, will it improve the competition and other factors?

Bring benefits yes it if you have more local place and bring a lot of benefits for the company for one. Also for the government for a company the good thing is that of course as I told you about the challenges earlier, like lack of skilled personnel. If you have a lot of companies, there you can bring higher from previous people who are doing the same job in different companies. Reasons for leaving that they want to have a higher salary or whatever reason why people change jobs. You can actually tap into the local competent base to acquire competence. You can also do

technology exchange so you know if you're if one companies be using that technology you can easily tap into it so there is enormous opportunities for companies if they are a lot of companies there. So you have this what is called a cluster effect.

The thing is that was most of most governments want to create jobs so if you have more companies their probabilities that it will create more jobs and moves every government hate foreigners so when you want to bring expects every government hate that there is a local network there then the government can actually insist that no you have to hire everybody locally because their competence is available yes

Interviewer 2: OK so we can say that for the next question; when we have to decide which country to invest into, we make a comparison do the number of locals in the country? This is a good indicator right and number of local players in the industry is a good indicator? It must be industry specific though so, for example if you're Coca-Cola probably don't face that much stronger local competition compare to other industries. I think yeah so it is kind of industrious presently right, also in your in your regression you can control the industry.

8. How did the host country's industry development influence your FDI?

The respondent has already answered this question

9. How did your investment compete in the local industry?

Compete on a global level. Cooperate in the local industry. The respondent has already answered this question

10. How did the FDI contribute to the development of the local industry or in general, the host country's welfare?

We have contributed a lot to the development of the local industry, in the sense that first we have initiated a lot of programs to help train local employees. We have a program called as a rated oil and gas program where we've put in a \$4,000,000 to train welders so people can wear so uh this competence. We are also required to have a local partner or local joint venture which means we do that, and we do technologies change with the local partner. Where they can learn from the competence that we bring from our long years of experience in the industry we share that with the locals uh and in addition of course we pay a lot of taxes to the government. We have an office in the capital, and we open another office in the offshore base. The plan is to staff it complete with local and our region country manager is a young lady from the origin country, So, in terms of employment in terms of technology transfer in terms of training future and reducing unemployment. And contributing with tax money.

Operations and success factors

11. What were some of the main challenges the FDI encountered while operating? How did you or the company overcome some of these challenges, and generally how successful the company was in Africa?

There's a theory you guys should read about it is called obsolescent bargaining. The theory and it's true in life, before the pre investment, it is very common that the government is very nice towards the company. But once you pumped in the 4.5 billion dollars into the country, then they want to flex their muscles. You know you cannot take your FPS in your bag and ship it back to your country. Once you have invested you cannot easily disinvest, it is not like a consultant we just take his laptop and then you go home. You are always careful about what the behavior of the government will be under the final investment decision.

We have a strong settlement mechanism in our company and so that if the government begins do that, we can sue them outside of the country. You can also have the problem with your local partners, but they find out this is my resources, and this is it belongs to me. So, these people may hassle with you. Having a structure of the local partnership in the way that these things doesn't happen so that you make sure that you have other 51%, so you have the majority here. Then you can replace them somewhere, so you build in these contractual mechanisms as a way of mitigating.

12. How important is legitimacy to your operations in Africa, and what have the company done to establish legitimacy?

Very important question. Yes, it important. We want to be perceived. We are here for the long term; we are here to stay, and we are not here to exploit the country and leave. But nobody can read what is in their heads, so you must show it. To let people know that you actually doing that you say stuff can you become legitimate and I mean our business we bid for blocks, which means that if the host country feels see you as a potential development partner whatever the long-term you will win more blocks and people would like to work for the company. You get the best talent.

Even outside the home the host country companies will be willing to invest in your projects, especially when it's so capital intensive you need banks and financiers with initially, they're sitting in New York or London or Paris. So you need them to be able to

pump money into your project so legitimacy or being deceived as legitimate and the keyword is perceived. To Be achieved as legitimate is very critical we do that in two ways We do that extensively through a community dialogue with the government and we use our communications department by making our press releases. We have town Hall meetings with supplier's industry leaders we've had a training session for journalists in oil and gas because as I told you the industry is very new. Actually generalized oil and gas journalism is it out in the country people just write, news actually teaching them and trying to sell this is what an FPS so is this is what metric gauges are Ann if we say we're talking about will do it or I will not do it explaining to them so we have this open dialogue.

I get a lot of emails that comes into the inbox let me see you from journalists and sometimes I called him back and so we try to achieve this by communicating with them. Ensuring that they can talk to us. The worst I think we can do is if we do not create an impression that we are available for them and they can write about us whenever possible then they will go ahead and print the news without, we having anything to say about it so they tell the story instead of we telling our story.

And of course, we also make sure that we have a strong compliance process because you can spend a lot of years building a reputation and you spend 5 seconds to ruin it. Sure, what that we've done is one of our suppliers is cutting to corruption case in all our financiers and everyone will start pulling off. Since, they don't want to be associated with the project. All the good things you've done for the past three years may be affected of a lower level manager taking advantages of his/her position. We try to be also very vigilant on who we select since we do, we cannot control their behavior uh so that's how we are doing it uh we trying to, so we have what is To summarize it doesn't become a legitimacy is important for us before I said my license maintaining and getting our license to operate in that

13. How do you describe the impact of local job creation, company revenue, and capital inflow (or local spending) towards the success of the investment?

Yes, it is. It is the perception in Africa and is a historical thing that Europeans when into developing countries and extracted their resources.

When we had a meeting with the minister of energy and of course we have this after a few drinks and having this informal conversation what comes up is that are afraid of becoming the next Nigeria. and the same thing when I go Botswana. The discussion is about Nigeria, an IE a country with one of the biggest oil reserves in the world and is one of the poorest countries in the world, because environment is being destroyed by companies like Shell, extracting all the oil.

Where they don't care about it and you end up the spillover becomes a problem of buka haram We ensuring with our communication to the mass media towards the ordinary person to know that you know we're here to create jobs, we actually have a training program so if you're interested please apply and we put money to do that and when talking with the government. We talked to them to the government about policy level, how we can make sure that no education institutions go from teaching people towards marketing and communication to offering courses in engineering where the jobs are so those are some of the things, we do so

we have two kinds of communications: we talk with the government that is completely different from what we talked to the mass media. The mass media pretty might become marketing and PR. We are pretty much sending our own praises and pattern our self. This is to make people feel comfort about that we are not to extract and leave. We are here for the long run.

Interviewer 2: to sum up what do you think is the main sort of legitimacy? (Money, jobs, technology)

All of them! All of them important, since they are all tangled up. You cannot create jobs without having the money, and you cannot extract resources without technology. So, everything is a combination.

Appendix 2

Interview: Banker 1

Introductory questions

- **What is your job title?**

Leader Emerging Markets. I am responsible for the bank's connections to foreign bank connections in emerging markets.

- **What is your knowledge/previous experience with the topic we are writing about?**

I have worked in Africa and with African counterparts since 1980. My first trip to Africa was in 1988, then I was co-responsible for implementing computer projects in two African countries. The first project was in Mozambique, where I was a project manager for half a year and then I lived in Tanzania. Where I was responsible for the implementation of a computer system in a bank, there I was for two and half years.

After that, I then worked with more banking, with International banking, but much more focus on emerging markets in Asia and Africa. Negotiating party with banking contacts or tasks such as credit assessment of African countries, counter-responsibility for counterparty risk in African countries.

- **What type of investment have you had any prior or current experience with?**

Aid project, implementation of computer systems in foreign banks

Mode and motivation of entry

1. **Which was the specific country/countries?**

Tanzania and Mozambique

2. **What type of categories of investment? Greenfield, M&A, JV, state aid?**

There was state support from Norad. I was hired as a consultant, where I was part of a collaborative project with Noard and the World Bank. Where we established a Joint venture of the two companies.

3. **What was the purpose of the investment? Which activities were the FDI conducting? Was the target towards the local market or more export-oriented?**

Digitalize the bank and implement new data system into the existing system

4. **When entering the new market with the given purpose, what are some success factors that are important for a foreign company to address when performing investment in Africa?**

You must know the country, Africa is complex with many different cultures, religions, tribes and people. Have a cultural understanding that understands the culture. Different cultures and differences between North Africa and countries from Sub-Saharan Africa. Extreme differences in culture and good business culture, where you have the Arab business culture in North and then you have a completely different type in withered culture in the south and even internally in the countries, there are also very big differences. Where you have the coastal regions that may have a more Asian culture with influence from Indian business culture. In west Africa there is more of a Portuguese culture, while in south Africa that is very European again, many different types of cultures, religions and environments to deal with.

Laws, regulations and taxes are essential. If the goal is to make money, as it is for most people, if not the assistance then it is about having control and overview of rules and tax benefits.

Infrastructure is very important. Certainty such things that we do not think about in Norway. Are you able to get that item from A to B or are there so many in the road and all the glass is produced from broken on the road.

Relationship with the authorities. How long does it take to get things through the bureaucracy, such as getting a license to operate? Then again, you are dependent on the local JV partner. Such processes can be demanding, and a JV partner can more easily carry of the process.

5. What were the main challenges that the firm concerned about when establishing the FDI in that country? How did you overcome these challenges?

One should think about when establishing and especially as a foreign company that one should think about corruption. As well as fraud is a great opportunity, cases to be cheated. Talk to people who have experience. Corruption risk associated with JV partner sincerely operates against you as an actor but takes measures that are unethical against the authorities. It is important to have total control on the branches there and the subcontractors.

Political security – it is important that the country has a stable political governance. Must take all previous conflicts into account before establishing oneself in African countries.

Currency control - not all countries have access to currency, when you run a business down there in Africa, you are a bit dependent on whether it is export. Related or local business and you get paid in local money. Is there any point for you to operate if you do not get to exchange the money in a sensible way and get it out?

Experience – total control if you buy or rent the competence you need locally, or you have to bring ECPACTS. ECPATS are very expensive, related to the costs of establishment, housing costs, infrastructure, etc. Health risks for ECPATs vary from country to country, one must to a total analysis of such investment and are there risk you can live with.

Host countries environment

6. How do you describe the development of the local industry in the target country? How did you evaluate the host country competition in the market?

Africa is not the easiest country and in terms of competition I would say if I were to invest in foreign markets and think in relation the competitive situation and productivity, I would say that Asia is the market. Africa has its challenges all the way and we have touched on many of them; corruption, work ethic, very diversified cultures that are demanding, if you do not it 100% right, then it is quick to make mistakes in Africa, much faster than elsewhere and it makes things go a little slow in Africa on a general basis.

7. How do you make a comparison of this industry development in the host country and other countries in Africa?

The cultural differences they have actually mentioned from the north where you have an older Arab business culture and, in the south, have in principle a European business culture. You notice when we operate with banking around, the business culture is very different. From until you get answers directly to other places in principle never get answers.

You also have regulations that do not become full, various bankruptcies and you take local twists. Recently, an example with the central bank in Kenya, where they do not fully follow the international rules of the game. Does not operate with most liquid requirements for what account should look like. May have a connection with development assistance policy, where they are used to having debts canceled or getting help in the end. Negative in relation to the desire to invest in foreign companies, if such things emerge. It is important to have the right systems. My experience is that commercial banks make up for it and do not want such a reputation

8. How did the host country's industry development influence your FDI?

Not relevant in this context.

9. How did your investment compete in the local industry?

Not a competition, was a restructuring within a company and implement new data systems.

10. How did the FDI contribute to the development of the local industry or in general, the host country's welfare?

Yes, I would it was probably very positive that we got to introduced various systems, it did something with the whole banking sector, we got a boost, because the dramatically commercialized the banking sector. It was positive and it also affects a positive trend for one business and for individuals that were given an opportunity to receive credit. New products came on the market, new solutions digitized solutions for customers and more people were given an

opportunity through micro financing. Spillover effects to credit positive, so in that sense it was of the very positive operations for the country that what one might be able to obtain credit.

Interviewer 1: in general, for the whole of Tanzania or only some parts?

For the whole of Tanzania. What happened was that they kept the commercial part in the larger cities and then they took all the other branches and transferred to a sperate institution that became microfinance institutions.

Interviewer 2: Since the main hypothesis where FDI leaves or creates effects such as; Spillover effects and knowledge effects.

There were several similar projects that ran in parallel with our project. Danish “Danita” Denmark’s aid organization ran a similar project with another bank, even went in to finance the institution. Si it helped to lift the entire financial sector in Tanzania. More efficient in general.

Operations and success factors

11. What were some of the main challenges the FDI encountered while operating? How did you or the company overcome some of these challenges, and generally how successful the company was in Africa?

Mention already

12. How important is legitimacy to your operations in Africa, and what have the company done to establish legitimacy?

I would say that it [legitimacy] is a very important factor, that you play with open cards and that you are perceived as a serious player and play with all parties. Africa is complex and it is quick to make mistakes and if you tread wrong at first, you are probably done, either that you are taken locally or that you get such a bad reputation worldwide. Important that you always keep your path clean.

I think it is really crucial to succeed in the long run then, you can do some shortcuts and such, but I think in the long run you get bonds that you do not want and that make it impossible for you to make money and operate gradually. You may be able to get faster operations license, and you can get more done for in I a short time perspective. However, in the long run the ties and connections will enable you to operate ethically.

13. How do you describe the impact of local job creation, company revenue, and capital inflow (or local spending) towards the success of the investment?

A little difficult for me to answer in a very specific way, but it is clearly local jobs that are essential for countries in Africa to generate legitimacy. They have a very young population and they have an unofficial and official unemployment rate that is completely beyond. It would provide effects in the local market with greater purchasing power, so you can use the company’s revenues and capital flow the parent’s company is always appreciated. It is never a problem to send money into Africa. The challenge is how much you can withdraw from the company

Appendix 3:

Table 4. Number of FDI in the sample based on Industry codes

NACE 2-digit code	Number of FDI	Industry name
1	13	Crop and animal production, hunting and related service activities
2	1	Forestry and logging
3	7	Fishing and aquaculture
5	3	Mining of coal and lignite
6	10	Extraction of crude petroleum and natural gas
7	9	Mining of metal ores
8	5	Other mining and quarrying
9	30	Mining support service activities
10	16	Manufacture of food products
11	4	Manufacture of beverages
12	1	Manufacture of tobacco products
13	1	Manufacture of textiles
14	4	Manufacture of wearing apparel
15	2	Manufacture of leather and related products
16	1	Manufacture of wood and of products of wood and cork, except furniture; manufacture of articles of straw and plaiting materials
17	5	Manufacture of paper and paper products
18	3	Printing and reproduction of recorded media
19	1	Manufacture of coke and refined petroleum products
20	6	Manufacture of chemicals and chemical products
21	3	Manufacture of basic pharmaceutical products and pharmaceutical preparations
22	14	Manufacture of rubber and plastic products
23	44	Manufacture of other non-metallic mineral products
24	4	Manufacture of basic metals
25	12	Manufacture of fabricated metal products, except machinery and equipment
26	6	Manufacture of computer, electronic and optical products
27	2	Manufacture of electrical equipment
28	12	Manufacture of machinery and equipment n.e.c.
29	4	Manufacture of motor vehicles, trailers and semi-trailers
31	5	Manufacture of furniture
32	17	Other manufacturing
33	7	Repair and installation of machinery and equipment
35	8	Electricity, gas, steam and air conditioning supply
37	1	Sewerage

39	1	Remediation activities and other waste management services
41	97	Construction of buildings
42	37	Civil engineering
43	34	Specialized construction activities
45	49	Wholesale and retail trade and repair of motor vehicles and motorcycles
46	142	Wholesale trade, except of motor vehicles and motorcycles
47	136	Retail trade, except of motor vehicles and motorcycles
49	13	Land transport and transport via pipelines
50	2	Water transport
51	6	Air transport
52	32	Warehousing and support activities for transportation
53	5	Postal and courier activities
55	5	Accommodation
56	2	Food and beverage service activities
58	4	Publishing activities
59	1	Motion picture, video and television program production, sound recording and music publishing activities
60	2	Programming and broadcasting activities
61	5	Telecommunications
62	16	Computer programming, consultancy and related activities
63	2	Information service activities
64	53	Financial service activities, except insurance and pension funding
66	42	Activities auxiliary to financial services and insurance activities
68	6	Real estate activities
69	1	Legal and accounting activities
70	21	Activities of head offices; management consultancy activities
71	23	Architectural and engineering activities; technical testing and analysis
72	3	Scientific research and development
73	2	Advertising and market research
74	32	Other professional, scientific and technical activities
77	3	Rental and leasing activities
78	2	Employment activities
79	8	Travel agency, tour operator reservation service and related activities
80	5	Security and investigation activities
81	1	Services to buildings and landscape activities
82	15	Office administrative, office support and other business support activities

85	4	Education
86	8	Human health activities
87	1	Residential care activities
88	2	Social work activities without accommodation
90	2	Creative, arts and entertainment activities
92	1	Gambling and betting activities
93	1	Sports activities and amusement and recreation activities
94	1	Activities of membership organizations
96	2	Other personal service activities
99	3	Activities of extraterritorial organizations and bodies