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BI Norwegian Business School – Thesis

**- Norwegian firms investing in  
Africa – The roles of perception  
and government support -**

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## Abstract

Using the psychological perspective, this thesis has investigated why Norwegian firms are reluctant when it comes to investing in Africa and moreover how Norwegian firms view their investments in Africa and what their future plans are.

In this investigation, the aim was to assess if, and to what extent, the perception of Africa has an impact on the investment. The secondary objective of the research was to show if and to what extent support from Norwegian government influences the investment.

Six firms and two consultants from the Business Matchmaking Programme were interviewed to provide results for the present research. One of the most significant findings to emerge from this study was that knowledge is an absolutely crucial element of perception, which appears to be what keeps a high number of firms away from considering the investment. Furthermore, the second major finding was that the opportunities in Uganda and the Republic of South Africa overwhelm in contrast to the risks, thus is it worth for firms to expand.

Additionally, based on the results and as discussed a theoretical model of perception and government support has been introduced in order to better capture the investment decision process of companies in Less Developed Countries. The models are based on several propositions, which cannot only serve as practical implications but could also become a foundation for possible future studies.

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## Introduction

While the developed world has been fighting economic crises since 2007, which resulted in periods of slow growth, stagnation or even recession, some countries around the world have significantly managed to improve their economies, living standards and wealth over that period, and thus shrinking the gap between them and the developed countries from North America, Europe or Asia. At the forefront of progress were BRIC countries: Brazil, Russia, India and particularly China, which have been exceptionally successful with their GDP growth and their roles in world economy have increased (Pelle 2007). Moreover, despite BRIC countries, together with some other South American, South African and Asian countries, being the main targets for international investments at the moment, and the developed world stagnating or developing slowly, there are still many countries that are very poor at present despite some of them showing good progress, offering great possibilities for firms, particularly in Africa (Prahalad 2006; Institute 2010).

Furthermore, since the strong growth in emerging countries mentioned above is expected to slow as wages rise and markets become more mature, it is reasonable to expect that investors will look for another under developed region, where they could profit on low wages and markets in early stages, which may be for example in Africa.

During the last decade, Africa has experienced an increase in number of investments<sup>1</sup>. One of the leaders in foreign direct investment (FDI) into Africa has been China. China has been motivated not only by gaining access to energy in a form of oil, coal, and to rare metals like chromium, cobalt, platinum, manganese and copper used in high-tech industry (Butts and Bankus 2009), but also by Chinese global *zou chuqu* (“go out”) directive, which pressures state-owned companies to pursuit long-term access to natural resources (Behar 2008).

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<sup>1</sup> It would be suitable here to include a figure, however I have not found any data about FDI into Africa split according to countries investing.

On the other hand, many firms in developed countries such as Norway, when it comes to Africa, are not bound by such directives and seem to sit back and not fully make use of what appears to be great potential (Norad 2010).

Some studies have already examined why Norwegian firms are reluctant when it comes to investing in Africa from the resource based perspective<sup>2</sup>, but no one has yet tried to look at the issue from the psychological point of view. Thus, the aim of this thesis is to fill the gap by investigating if and to what extent perception of Africa has an impact on the investment. Secondary objective of this research is to find out if and to what extent a support from Norwegian government influences both the perception of Africa and the investment.

The purpose of this study is twofold. From the theoretical perspective I would like to propose a model that would characterize the process of Norwegian firms investing in Africa. From the practical perspective the main objective is to provide implications not only for Norwegian firms, but possibly also for educational institutions or for Norwegian government.

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<sup>2</sup> According to Hans Henrik Thaulow, a Senior adviser for Norwegian Agency For Development Cooperation (retired 2012)

## Literature review

### About the investment

This chapter presents literature related to the investment dimension of this research. Three concepts will be presented; the Ownership/Location/Internalization (OLI) framework, the Uppsala model and the Born global concept.

Before analyzing the issues that seem to be related to Norwegian firms investing in Africa, firstly a definition of the investment will be provided. The explanation is corresponding with the concept of Foreign Direct Investment (FDI), which is defined for example by World Bank<sup>3</sup> or Organization for Economic Co-operation and Development (OECD)<sup>4</sup>, that state that FDI is any cross border investment acquiring at least 10% of the shares, with the purpose of gaining control in the investment subject, not only financial profit. The stake of 10 percent can be very high in some cases giving high control, but it can also give very limited control, depending on the general ownership structure.

According to Dunning and Lundan (2008), four main types of FDI are classified, based on the primary motivations behind them:

- Resource seeking – The main motivation here is to exploit a country's comparative advantage. For example, firms may primarily target countries rich in primary materials, such as oil or minerals. Another type of resources firms may be looking for is low-cost or specialized labor.
- Market seeking – One of the goals here may be to reach local or regional markets, often starting in neighboring countries. Another example may be supplier companies following their customers overseas. Market-seeking FDI can also have defensive character in order to protect the home market.
- Efficiency seeking - FDI has in many cases form of a follow-on investment. A firm might originally make several resource or market seeking investments, followed by efficiency seeking investment to consolidate the operations.

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<sup>3</sup> Worldbank.org. Glossary. [Retrieved 13.1.2012](#)

<sup>4</sup> [Oecd.org](#). OECD benchmark definition of FDI. [Retrieved 13.1.2012](#)



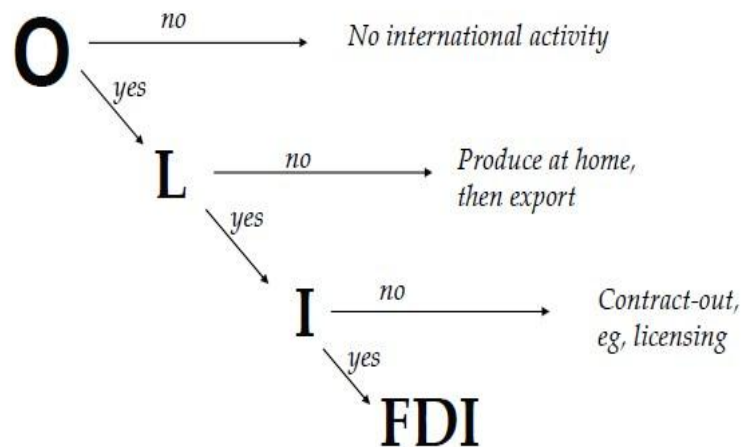
- Strategic asset seeking – this type of FDI firms use to make investments in order to promote their long-term strategic objectives. That can include for example a strategic alliance with a firm located in a foreign country to jointly undertake a project that would benefit both.

When first considering doing business abroad, the management of firms should decide whether the firm has the necessary competitive advantage to expand abroad. Additionally, it is important to realize if it is better for the firm to internalize all operations, which means investing and carrying out the production or service on their own, or to just export, or to find a partner that would pay a fair amount of money for a license, franchise or patents, etc.

### OLI framework

In J.H. Dunning’s (Dunning 1981, 1988, 2000) Eclectic theory, otherwise referred to as OLI framework, management should answer step-by-step three essential questions in order to determine if the firm should internalize. OLI is an abbreviation of ownership, location and internalization factors.

Figure 1: The OLI framework



According to Dunning, the ownership factor is about whether the firm controls certain assets that give it a competitive advantage over indigenous firms. If the answer is no, then the suggestion is to stay in a home market. If the answer is yes, then Dunning suggests moving to the next question.

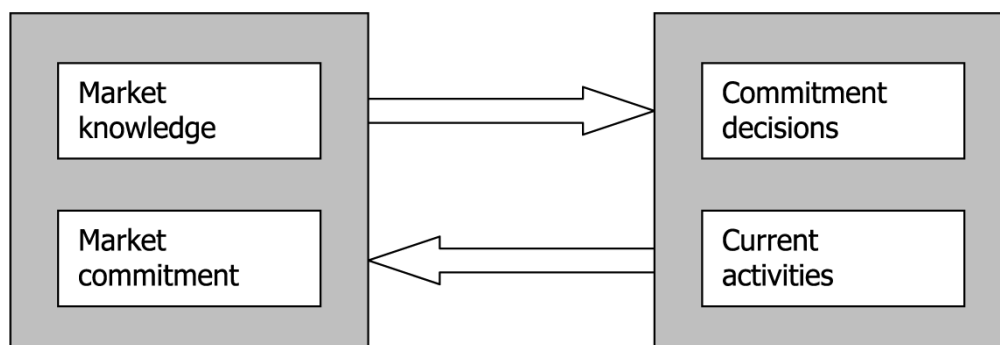
The location factor brings up a question whether certain assets controlled by the firms are best put into use in parts of the world beyond the firm's country of origin. Again if the answer is no, then the firm should produce the product at home and export it. If the answer is yes, managers should proceed to the final question.

The internalization factor points to the organization of activities. In other words, the managers should ask themselves: "Can we do it better, cheaper and more efficient ourselves?" If the answer is no, then the firm should choose licensing. If the conclusion is yes, then the firm should internalize and do FDI (Lawrence, Gabriel, and Peterson 2007).

### Internationalization theory

Another main issue for firms that consider expanding abroad is where to start and how much to commit to it. The Internationalization theory, also known as the Uppsala model, which was formulated by Johanson and Vahlne (Johanson and Vahlne 1977, 1990), describes a traditional, Nordic way of going international. It refers to the internationalization of a firm as a process of experiential learning followed by increasing commitment that eventually leads to an evolutionary development in foreign market. In other words, by operating in a country, the firm increases its market knowledge, which in turn results in more commitment in that country (Johanson and Vahlne 1977).

Figure 2: The Uppsala model



Source: Johanson and Vahlne (1977)

An important concept defined in the Uppsala model is Psychic distance, which consists of factors that have a serious influence on information exchange between a firm and a host country. These factors are related to difference in language, culture,

political system, level of education, level of industrial development etc. (Johanson and Wiedersheim-Paul 1975). Hence, according to the Uppsala internationalization model, firms tend to start their foreign operations in countries with low psychic distance and afterwards progress to countries with greater psychic distance.

According to the Uppsala model, companies usually start with low commitment mode requiring low market knowledge, e.g. exporting. When they learn more about the market, the next step can involve direct export and establishing own sales office followed by warehouse facilities in the foreign country. This often leads to establishing a wholly owned subsidiary to become a true multinational player (Johanson and Vahlne 1990).

Some authors, for example Oviatt and McDougall (Oviatt and McDougall 1997; Oviatt and Phillips McDougall 1999) and Forsgren and Hagström (2007), challenge the applicability of this dynamic process to new types of businesses such as internet-based firms. Others, such as Welch and Luostarinen (1988) or Melin (1992) criticize the depiction of internationalization process as deterministic and irreversible. Andersen (1993) argues that the model is not a testable theory and some authors as Calof and Beamish (1995) or Björkman and Forsgren (2000) also criticize poor theoretical power of the model due to a limited number of poorly defined explicit explanatory variables. Moreover, the model suffers from a tautological explanation behind the learning process as to what comes first, whether commitment or knowledge.

In 2009, the Uppsala internationalization process model was revisited due to progress in business practices and theoretical advances since 1977. At the moment, the market is considered more as a web of relationships, a network, as opposed to just many independent suppliers and customers. The Psychic distance concept has been replaced with Outsidership, which, with regards to the relevant network, is the main source of uncertainty. The lack of knowledge may therefore be supplemented by being a part of a network (Johanson and Vahlne 2009).

### Born global concept

While traditionally many firms have used the Nordic model to expand abroad, a clear trend can be seen especially in the last decade (Moen and Servais 2002). More and

more firms skip the gaining knowledge and experience part and get committed in international markets from the beginning. These, so called “Born globals” are defined by scholars (Oviatt and Phillips McDougall 1994; Knight and Cavusgil 1996) as business organizations that, from or near their founding, seek superior international business performance from the application of knowledge-based resources to the sale of outputs in multiple countries.

What makes these firms different from the traditional pattern presented in the Uppsala model is that their origins are international, which can be seen from management's global focus and the commitment of specific resources abroad. Unlike the traditional firms, born global firms do not spend many years in the domestic market first to develop capabilities and then expand, but rather view their market as global from the beginning (Knight and Cavusgil 2004). Another research has found that it often takes less than 3 years to first enter foreign market since the domestic establishment (McDougall and Oviatt 2000). Knight and Cavusgil (2004) also argue that the small size allows born global firms to be more flexible, which is an important benefit in order to succeed in foreign market.

### **Why not Africa?**

This chapter will introduce literature that from the psychological perspective can explain why Norwegian firms can be reluctant to investing in Africa, despite the opportunities there. Three different areas of literature will be discussed. Firstly, the reader will be presented a concept of Psychic distance, followed by Heuristics and Perception.

#### **Psychic distance**

A first explanation of the reluctance could be that the continent is too distant. Viewed through the lens of Internationalization theory, the psychic distance is high, portraying Africa as high-risk area. Therefore, management may feel like they do not possess the necessary experience to succeed in that area and according to the theory, a firm would choose to expand to a country that is closer in terms of psychic distance than Africa.

One of the ways to illustrate how African culture, language, environment is different from Scandinavia is Hofstede's cultural dimensions theory (Hofstede 2001). Hofstede's theory describes the effects of a society's culture on the values of its members, and how these values relate to behavior. Five dimensions are measured to characterize the cultural environment in East Africa and Norway. Hofstede defines the dimensions as following<sup>5</sup>:

Power distance “is the extent to which the less powerful members of organizations and institutions (like the family) accept and expect that power is distributed unequally.”

Uncertainty avoidance “deals with a society's tolerance for uncertainty and ambiguity. It indicates to what extent a culture programs its members to feel either uncomfortable or comfortable in unstructured situations.”

Individualism on the one side versus its opposite, collectivism, “is the degree to which individuals are integrated into groups.”

Masculinity versus its opposite, femininity, “refers to the distribution of emotional roles between the genders”

And Long-Term versus Short-term orientation “fosters pragmatic virtues oriented towards future rewards.”

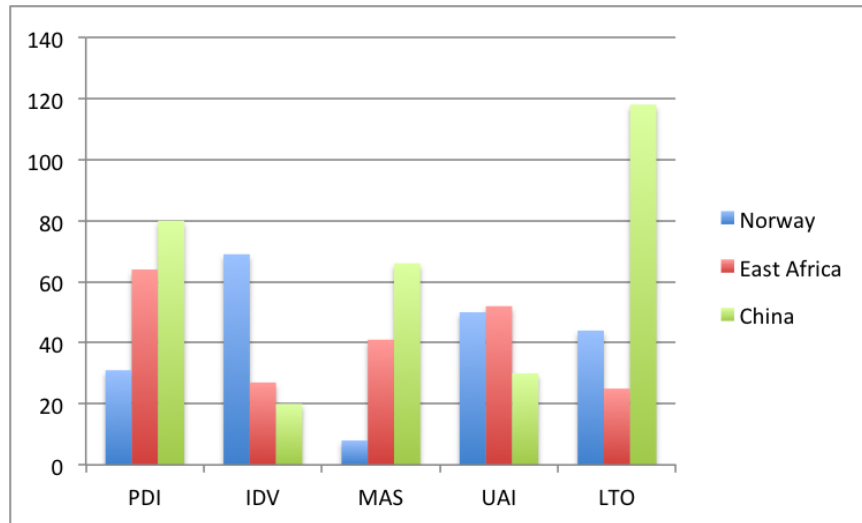
Although Hofstede's theory is one of the most cited of all, it has not escaped criticism for several reasons. To give an example, Schwartz (1999) questions the relevancy claiming survey is not the right way to accurately measure cultural disparity, especially when the values are subjective and culturally sensitive. Moreover Nasif et al. (1991) and Redpath (1997) criticize Hofstede's assumption of cultural homogeneity arguing that a country's population usually includes more than one ethnic group. Finally, McSweeney (2000) states that nations should not be selected as unit of analysis due to cultures being not necessarily restricted by borders. However, despite numerous criticisms most researches stand on Hofstede's side (Jones 2007).

The following figure 3 shows the comparison between Norway, East Africa, China and South Africa in terms of five cultural dimensions:

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<sup>5</sup> Geerthofstede.nl. Dimensions of national Cultures. [Retrieved 2.8.2012](#)

Figure 3: The 5 Dimension model



Data source: <http://geert-hofstede.com/>

The comparison between Norway and East Africa gives an overview of how different the two cultures are. However, I would like to offer two main arguments to show that this psychic distance should not be the reason for neglecting Africa by the Norwegian firms. First of all, as it has been mentioned earlier, an increasing number of born global firms, particularly of small and medium size, do not follow the traditional pattern of internationalization, but instead view their market as global from the beginning. Often due to information technology, these firms are ready to answer on demand anywhere in the world as long as they possess the right product. Secondly, many Norwegian firms invest in China, despite the fact that the psychic distance seems to be even greater here. Not only China has completely different culture as shown in the figure, it also has the written language and difference of several time zones that can make doing business extremely difficult.

It is important to mention that psychic distance is more than the five cultural dimensions of Hofstede. Significant differences can be found not just between the dimensions but also among many more aspects of culture. Cultures manifest themselves differently and to a different extent. For instance symbols can be words or gestures that only have a specific meaning recognizable by members of the same culture. Similarly, rituals such as ways of greeting, religious ceremonies or paying respect to others also differ between different cultures (Li and Karakowsky 2001).

However, no matter how different the culture of different African countries is from Norway the main argument still remains that when Norwegian firms invest heavily in other countries with high psychic distance such as Brazil or China, it should not be the psychic distance what keeps them from investing in Africa.

### Heuristics

If the psychic distance is not the reason why Norwegian firms seem to be reluctant to invest in Africa, more possible explanations can be found in a theory. For instance Heuristics, which is a limited number of strategies that people use to make decisions in cases where problems are too complex or information is incomplete. In that case people often make mental shortcuts to come to judgments about the probability of events (Kahneman, Slovic, and Tversky 1982). Kahneman and Frederick (2002) propose that the process in cognitive heuristics is called attribute substitution and that it happens without conscious awareness. In this theory, if people make judgments, which are overall very complex, a rather easier made heuristic calculate is used. This process can be beneficial but it can also in some cases lead to systematic errors and cognitive biases. Tversky and Kahneman (1974) describe several strategies - types of heuristics that can affect people's judgment and decisions. Three of them will be presented here.

Availability heuristics (Tversky and Kahneman 1973) is a mental shortcut where people use the ease with which examples come to mind to make judgments about the probability of events. In this thesis context, if manager of a firm thought of which country to invest in - a very complex decision that requires great knowledge and information to make the right decision – and had not the sufficient knowledge or experience, according to availability heuristics he or she would look in the neighborhood to see where other firms invest to notice that while many firms do business in China, few firms are present in Africa. Therefore, the manager would also be likely to consider investing in China rather than in Africa despite the fact that bigger opportunity may possibly be in Africa.

According to Representativeness heuristics the subjective “probability of an uncertain event, or a sample, is determined by the degree to which it: (i) is similar in essential characteristics to its parent population; and (ii) reflects the salient features of the

process by which it is generated” (Kahneman, Slovic, and Tversky 1982). Therefore, for example if the Norwegian manager reads negative news about wars, poverty, no education at one particular place in Africa, he or she is likely to assume that the situation will be similar in some other parts of Africa as well, which may not be accurate.

And Adjustment and Anchoring is heuristics, which has effect on how people’s intuition assesses probabilities. According to this, too much emphasis is put on a specific piece of information to govern the thinking process. People start with an original reference point – the anchor – and then make small adjustments to it based on additional information (Tversky and Kahneman 1974). Thus, if the manager of a Norwegian firm reads first about very negative thing such as great level of corruption in Africa, he or she will have a tendency to overly rely on this particular information when making a decision.

More biases could influence managerial decisions. For example Colman (2003) describes the Bandwagon effect as the probability of any individual adopting certain conduct or belief increases with the number of those who already have it. Ambiguity effect is “the tendency to avoid options for which missing information makes the probability seem unknown” (Baron 2004, p.372). Negativity bias can also be mentioned, which is the tendency to put more emphasis and weight on rather negative than positive experience or information. Fiske (1980) argues, that when a person is given one positive and one negative piece of information (well balanced) about a stranger, the person’s judgment will be rather negative than neutral. Therefore, biases could potentially play a role in the investments as well.

### Perception

Furthermore, from the psychological perspective, one of the reasons why Norwegian firms are so reserved when it comes to investing in Africa could be the manager’s perception of Africa. According to Pomeranz (2006) and Goldstein (2010) perception can be described as a process in our brain that organizes and interprets information collected by our sensory receptors. The processing can be in either bottom-up, or top-down direction. The bottom-up processing begins with basic information units that



serve as foundation for recognition. Top-down processes begin at the top, because they are guided by knowledge and expectations (Bernstein 2010).

As such, according to Pomeranz (2006), this process has several restrictions that will be presented. Firstly, perception is limited. That means it is impossible for a human to get a one hundred percent, full picture or opinion on some subject due to huge amount of information. Secondly, perception is selective, which indicates that our “picture” is narrowed down even more by focusing our attention to some object only while neglecting important information in the background. Furthermore, not only our perception we create for the first time is relatively resistant towards changes in the environment (for example if a manager encounters corruption and creates his/her perception about the corruption in the country, he or she may ignore small changes in corruption while preserving the original perception), but also what is perceived as corruption in one country may not necessarily be viewed as corruption in another (for example employing relatives, inviting for trips, etc.). Moreover, perception is not accurate; there can be different illusions (e.g. optical), which can alter the way we perceive things. And finally, perception is influenced by a context. For instance, if a manager from a country such as Norway, where the level of corruption is very low, travels to Africa, corruption there may appear to him much worse than to someone from Middle East, where such practices are often to be seen as well.

According to Gregory (2004), perception does not only passively receive various signals, but can also be affected by learning, memory and expectation. This could be of high importance for the later proposed model, which believes that lack of up-to-date learning (bad knowledge) leaves “outdated” perception that is far from reality, thus causing wrong managerial decision. And moreover memory, for example bad past experience also shapes perception negatively.

### **Government support**

In this sub section the theory examining how government support affects FDI will be presented. Major part of the investment promotion literature examines the relationship between different kinds of government support of the host country and the amount of FDI being received in that country. According to Charlton and Davis (2007) there are three main types of investment promotion. Firstly, the country that

needs to attract investments can disseminate information about local conditions. Secondly, the country can coordinate foreign and domestic business activities, for example linking firms with suppliers, etc. Finally, likely the most important way to promote investments is to either affect profitability of the investments directly via numerous fiscal or financial incentives, such as tax breaks, training subsidies, accelerated depreciation allowance or grants, or by lowering the cost of establishments for firms, such as assistance with finding right site, etc.

From the host country perspective, considerable amount of research has been made on how investment promotion affects the investment volumes mostly concluding with a positive relationship between those variables. For example, Charlton and Davis (2007) found a very strong positive relationship between investment promotion and volume of FDI. Moreover Coughlin, Terza, and Arromdee (1991) and Bartik (1985) found a negative impact of high taxes on investment implying lower taxes for foreign investors attract investment. Further attempts have been made to link other kinds of promotion with the level of investment, such as for example Head, Ries, and Swenson (1999) but as Charlton and Davis (2007) say, non-financial and non-fiscal types of promotion are more difficult to measure.

Moreover, more relevant for this study, very few studies have focused on how investment promotion from the investing country affects the investment. For example, Devfin Advisers (2010) examined the effects of Norwegian business-related assistance in some Less Developed Countries (LDC's) and concluded that certain types of the assistance, such as matchmaking, had positive effect on investment. Due to the small amount of literature found, it will be interesting to see if the results of this study will support such conclusion.

Additionally, many authors researched the effects of export promotion. Since both investment support from investing country and export promotion aim to lower risks for companies, this literature will also be presented.

Cavusgil and Czinkota (1990) say that there is a significant role of government when it comes to stimulating international business activity of domestic companies using export promotion. Furthermore, there have been also numerous studies trying to answer if export promotion actually works, for example some authors (Coughlin and

Cartwright 1987; Wilkinson, Keillor, and d'Amico 2005; Shamsuddoha, Ali, and Ndubisi 2009; Martincus and Carballo 2010; Leonidou, Palihawadana, and Theodosiou 2011) all find support for the positive relationship between export promotion and export performance.

Some authors also tried to investigate in which cases export promotion does not improve the export performance, such as Ghani (2006), who examined crowding-out effect on exports. Ghani proposed that if all developing countries promote export, they will even out each other's advantage, therefore there would be no effect on export performance. Instead, his research showed that developing countries are crowding out exports from Western European countries. So the conclusion was actually in line with the previous mentioned authors. The export promotion did have positive effect on export performance of developing countries.

## Investment related assistance of Norwegian government

This chapter will introduce 4 institutions that work under the directorate of Norwegian government with the aim to contribute to development in LDC's; Norwegian Agency For Development Cooperation (Norad), Norfund, Innovation Norway and Guarantee Institute for Export Credits (GIEK). Additionally, one more institution, The Confederation of Norwegian Enterprise (NHO), will be presented. Despite NHO is, as its title suggests, a confederation of firms rather than a governmental body, its activities in Uganda are financed by Norad, which in the context of this research is sufficient.

### Norad

Norad is a directorate under the Norwegian Ministry of Foreign Affairs. Norad's vision is to yield results in the fight against poverty while its mission is to ensure the quality of development assistance.<sup>6</sup> According to Hans Henrik Thaulow, a Senior Advisor in Private Sector Development (retired 2012), Norwegian firms are eligible for support from Norad if one of the aspects of their investment is to help the development in a developing country. Norad has the means to support Norwegian businesses in Africa in several ways such as:

- Support for Matchmaking - through Innovation Norway
- Support for feasibility study
- Support for training related to investment
- Support for trial production related to investment
- Support for infrastructure
- Support for training related to export
- Support for product development related to production in a developing country in order to raise the quality standard so the product can be sold on the Western Markets.

Moreover, the information office under Norad (Veiledningskontoret) often serves as a first starting point for firms that are seriously interested in investing in or trading with

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<sup>6</sup> Norad.no. About Norad. [Retrieved 4.8.2012](#)

LDC's<sup>7</sup>. According to Halvard Lesteberg, the chairman, firms having that interest approach the information office and the main goal is to provide guidance and advice to these firms, particularly related to funding and financing opportunities. Moreover, firms are given a feedback on their business plans and given suggestions for improvement. Additionally, if firms decide to apply for Norad assistance, the information office can ensure the quality of their application.

### Innovation Norway

Innovation Norway (INN may be used later on for simplifying purposed) supports firms in developing their competitive advantage and to enhance innovation. Norwegian companies are provided access to a broad business support system as well as financial support. Their support includes advisory, promotional and network services. Additional task of Innovation Norway is to market Norway as a tourist destination. Moreover, Innovation Norway is the Norwegian government's official trade representative abroad. The goal is to provide Norwegian firms with assistance to grow and find new markets<sup>8</sup>.

Regarding Africa, particularly the Republic of South Africa (RSA), Innovation Norway runs a Business Matchmaking Programme (BMMP), which is owned and financed by Norad. According to Eivind Nyhus (retired 2012) and Erik Wiken, senior advisers for the BMMP, the aim is to establish profitable partnerships between Norwegian and foreign firms. Firms are provided advisory and consolatory assistance by the programme, market research, searching for potential partners from foreign countries and funds for travel to meet the partners. Furthermore, Innovation Norway also ensures the follow-up of initiated activities.

In most cases, consultants of Innovation Norway do market research and based on the results approach a Norwegian firm that seems to be suitable for the BMMP. Then they initiate a meeting with the firm where more details about the opportunities and the programme are explained. If the firm is interested, Innovation Norway is then able to fund major part of the travelling costs to meet the potential foreign partners. When a management of the Norwegian firm arrives to RSA, local representatives of

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<sup>7</sup> Veiledningskontoret.no. Om oss. [Retrieved 5.8.2012](#)

<sup>8</sup> Innovasjon Norge.no. Forsiden. [Retrieved 5.8.2012](#)

Innovation Norway give them full assistance regarding setting up meetings, etc. If the management has willingness to continue in the cooperation, Innovation Norway then provides them with further assistance to ensure that the whole matchmaking process evolves into successful partnership. As Mr. Nyhus claims, since 1997 over 300 companies have been approached in Norway and about half of them were successfully matched.

According to Mr. Thaulow from Norad, widening the Business Matchmaking Programme to cover not only RSA, but also other Sub-Saharan countries, such as Kenya, has recently been discussed.

In order to achieve higher objectivity it should be stated that while the BMMP can have a really positive impact on firms by helping them to get established in the new markets it could also have a negative effect on them by deviating them from their original strategy.

### Norfund

Norfund (Norwegian Investment Fund for Developing Countries) is an investment company intended to develop and establish profitable and sustainable enterprises in poor countries. The objective is to promote business development and contribute to economic growth and poverty alleviation. Norfund operates in some of the world's poorest countries and invests in markets where ordinary commercial enterprises are often reluctant to venture alone because of the high risk. Norfund invests equity, directly in enterprises and indirectly through funds, as well as providing loans to individual companies. Norfund is a hybrid company with limited liability established and operated under special legislation (the Norfund Act) and owned by the Norwegian Government through the Ministry of Foreign Affairs. Norfund acts as a key instrument of Norwegian development policy, and the Norwegian parliament allocates annual capital grants to Norfund in its development assistance budget<sup>9</sup>.

Despite one of the goals of Norfund is to contribute to the development of poor countries, it is still an enterprise seeking for profits and support of Norwegian businesses.

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<sup>9</sup> Norfund.no. About Norfund. [Retrieved 5.8.2012](#)

## GIEK

GIEK is a guarantee institute under the Norwegian government, which aims to help Norwegian exporters by lowering their commercial risk, such as buyer's failure to pay, and their political risk, for instance in case of war, expropriation and actions of the public authorities that prevent payment<sup>10</sup>. With regards to some African countries, the guarantees provided by GIEK may be very important for some Norwegian companies.

## NHO – financed by Norad

NHO is the leading voice of business and industry in Norway with current membership of over 20,000 companies range from small family-owned businesses to multinational companies in most sectors<sup>11</sup> and as such is not a governmental body, but rather an organization of firms that deal with the government. However, it is important to mention NHO's engagement in Uganda, which is financed indirectly by Norad. Leif Dons, NHO's Uganda program director explained that NHO has been present in Uganda since 1997 and has provided Norwegian firms investing there with advisory, consultancy assistance and establishing contacts. Moreover, Norwegian firms are offered to stay in a "Norwegian house", which is a place where firms can reside and meet together to discuss ideas and share experience.

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<sup>10</sup> Giek.no. About us. Retrieved [27.08.2012](#)

<sup>11</sup> Nho.no. The Confederation of Norwegian Enterprise. Retrieved [5.8.2012](#)

## Africa today

This chapter aims to give the reader background information of Africa as a whole, followed by a brief introduction of the selected countries.

First of all, an introduction of Africa is provided to have a better understanding of the issue. Generally speaking, African continent consists of 54 countries and few disputed territories, with the total size of about 30,330,000 km<sup>2</sup>, which ranks Africa as second biggest continent. The total population is just over 1 billion, from which about 41,2 percent are economically active<sup>12</sup>. The land profile includes all conditions from deserts to rain forests, plains to mountains, and savannas to swamps. Africa is very rich on raw materials; every country has some in its territory. For example diamonds, gold, silver, zinc, phosphates, oil, natural gas, petroleum or uranium<sup>13</sup> could be mentioned. And thanks to its landscape and long historical isolation from other continents, Africa disposes of unique flora and fauna not to be found anywhere else on the planet.

Although Egypt, Morocco and South Africa are considered to be emerging economies already and Nigeria is predicted by Goldman Sachs as one of the “next 11”<sup>14</sup>, majority of the continent is very poor and people in many countries depend on humanitarian aid from the rest of the world. In 2009, total net official development assistance from members of the OECD’s Development Assistance Committee reached \$119,6 billion<sup>15</sup>.

In many countries, human rights are often ignored, which can be seen from the number of working children or long working hours (Edmonds 2006; Kielland and Tovo 2006). Human trafficking, illegal business with human organs or famine is still present in some areas (Adepoju 2005). Especially middle and southern part of Africa have a huge problem with AIDS (Kalipeni et al. 2004) and many people still die of malaria. Furthermore, literacy is generally low, even though some tremendous efforts have been made to get kids to school in some countries. Finally, many local wars also

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<sup>12</sup>Uneca.org. African Statistical Yearbook 2010 [Retrieved 12.12.2011](#)

<sup>13</sup>Cia.gov. Africa. [Retrieved 12.12.2011](#)

<sup>14</sup>Goldmansachs.com. The next 11. [Retrieved 13.1.2012](#)

<sup>15</sup>Oecd.org. Development aid rose in 2009... [Retrieved 12.12.2011](#)



took place in Africa, with hundreds of thousands people dead, for example in Sierra Leone, Rwanda or Sudan. Other recent ones are from Libya and Egypt, where civil wars took place as part of the Arab spring<sup>16</sup>, or Nigeria, where radical Islamic groups have murdered Christians<sup>17</sup>.

With so many issues one could say it is hard to even consider Africa as a continent that will rapidly grow one day. Due to never ending wars, The Economist even called Africa “The hopeless continent” back in 2000<sup>18</sup>.

However, a decade later, they regret that call and issue a new volume called “The hopeful continent - Africa rising”<sup>19</sup>. Why? According to The Economist, lots have changed since 2000. One of the worlds biggest markets with different goods is now in Nigeria. More highly motivated entrepreneurs and richer consumers have emerged. During the last decade six of the world’s ten fastest-growing countries came from Africa and Africa has grown faster than East Asia in eight of the previous ten years. Additionally, International Monetary Fund (IMF) expects Africa to grow by 6% in 2011 plus almost 6% the following year, which is comparable to Asia.

And as The Economist adds, that commodities boom is partially responsible for this, since Africans got higher revenues for selling commodities, for example oil, copper and gold. Furthermore, a big part of the growth also came from manufacturing and service economies that African countries have been developing. China has been a pioneer with long term FDI to Africa, followed by Brazil, Turkey, Malaysia and India. In the last decade, FDI inflows rose ten times. Africa has also over 600 million phone users, which is rather surprising but positive. Thanks to the international help, the health of people is also improving. Africa has now better-educated young people and declining birth rate, the number of economically active people should peak in 30 years from now, which is very promising for future growth<sup>20</sup>.

Due to the size of the continent and big differences among its countries, the focus of this research will be on some of the countries of Sub-Saharan Africa, more precisely on the Republic of South Africa and Uganda. The reason to choose these two

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<sup>16</sup> Economist.com. Arab Spring. [Retrieved 12.12.2011](#)

<sup>17</sup> bbc.co.uk. Who are Nigeria’s Boko Haram Islamists? [Retrieved 13.1.2012](#)

<sup>18</sup> Economist.com. May 2000. The hopeless continent. [Retrieved 12.12.2011](#)

<sup>19</sup> Economist.com. Dec. 2011. The hopeful continent – Africa rising. [Retrieved 12.12.2011](#)

<sup>20</sup> Economist.com. Dec. 2011. The hopeful continent – Africa rising. [Retrieved 12.12.2011](#)

countries is that: Firstly, those are among countries with highest presence of Norwegian firms. Secondly, although considered as relatively politically stable with regards to some other African countries and with high GDP growth rates, these two countries are very different in terms of risks, culture etc. And finally, Norwegian government provides support for firms that are interested in investing in these countries. In the next section a brief overview of the two countries will be provided.

### The Republic of South Africa (RSA)

Firstly, the basic statistics of RSA will be presented followed by a brief history and current issues in the country. Moreover, the reasons why RSA has been chosen for this study will be introduced.

**Table 1: Statistics of RSA**

Area	1,219,090 km <sup>2</sup>
Population	48,810,427 (July 2012 est.)
Population growth rate	-0,412% (2011 est.)
Life expectancy	49,41 years (2011 est.)
Literacy rate	86,4% (2003 est.)
Ethnic groups	Black African 79%, white 9.6%, colored 8.9%, Indian/Asian 2.5% (2001 census)
Climate	Mostly semiarid; subtropical along east coast
Natural resources	Gold, chromium, antimony, coal, iron ore, manganese, nickel, phosphates, tin, rare earth elements, uranium, gem diamonds, platinum, copper, vanadium, salt, natural gas
GDP (purchasing power parity)	\$554.6 billion (2011 est.)
GDP real growth rate	3.4% (2011 est.)
GDP per capita (PPP)	\$11,000 (2011 est.)
GDP/sector	Agriculture: 2.5% Industry: 31.6% Services: 65.9% (2011 est.)
Labor force	17.66 million (2011 est.)
Inflation rate	5% (2011 est.)

Source: <https://www.cia.gov/library/publications/the-world-factbook/geos/sf.html>

A brief history of South Africa will be presented. In the mid 1600's Dutch traders landed at the southern tip of South Africa and established a stopover point on the spice route on the way to the Far East. In the beginning of 1800's the British seized the Cape of Good Hope area, which forced the Dutch to travel more north to find their own republics. Diamonds and gold were discovered in the late 1800's, which spurred wealth and immigration and intensified the subjugation of the native inhabitants. South Africa became a republic in 1961 after a referendum with only white participants. In 1948 a policy of apartheid was instituted, which meant the separate development of the races, and it favored the white minority over the black majority. As a result of apartheid many top leaders of the African National Congress, for instance Nelson Mandela, spent decades in prison. Internal protests, insurgency and boycotts by some Western nations and institutions eventually led to regime's willingness to negotiate a peaceful transition to majority rule. The first multi-racial elections were held in 1994, which was the end of apartheid. Since then the country has struggled to address apartheid-era imbalances in decent housing, education, and health care. The current president of RSA is Jacob Zuma. He has been in the office since 2009.<sup>21</sup>

South Africa has been chosen for this research for multiple reasons. Firstly, it is the most advanced country on the African continent with culture that is most similar to Western culture. In some sectors RSA is highly developed, for example in telecommunications, health care or banking and is ranked high in competitiveness in indexes such as World Bank/IFC Doing Business<sup>22</sup>. Secondly, RSA serves as a hub/gateway for many companies to expand to the other countries in the region. Thirdly, most Norwegian firms that do business in Africa are located in RSA. And finally, Norwegian government has a program called Matchmaking run by Innovation Norway, which helps Norwegian firms to discover opportunities and find business partners.

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<sup>21</sup> Cia.gov. South Africa. [Retrieved 5.8.2012](#)

<sup>22</sup> Doingbusiness.org. 2010. World Economic Forum: Global Competitiveness Index. [Retrieved 4.8.2012](#)

## Uganda

Table 2: Statistics of Uganda

Area	241,038 km <sup>2</sup>
Population	35,873,253 (July 2012 est.)
Population growth rate	3.582% (2012 est.)
Life expectancy	53.45 years (2011 est.)
Literacy rate	66.8% (2002 census)
Ethnic groups	Baganda 16.9%, Banyakole 9.5%, Basoga 8.4%, Bakiga 6.9%, Iteso 6.4%, Langi 6.1%, Acholi 4.7%, Bagisu 4.6%, Lugbara 4.2%, Bunyoro 2.7%, other 29.6% (2002 census)
Climate	Tropical; generally rainy with two dry seasons
Natural resources	Copper, cobalt, hydropower, limestone, salt, arable land, gold
GDP (PPP)	\$46.96 billion (2011 est.)
GDP real growth rate	6.7% (2011 est.)
GDP per capita (PPP)	\$1,300 (2011 est.)
GDP composition by sector	agriculture: 22% industry: 25.4% services: 52.6% (2011 est.)
Labor force	16.02 million (2011 est.)
Inflation rate	18.7% (2011 est.)

Source: <https://www.cia.gov/library/publications/the-world-factbook/geos/ug.html>

A wide range of different ethnic groups with different political systems and cultures were formed during the British governance in Uganda. These differences made it difficult to establish a working political community when the country reached independence in 1962. Between 1971 and 1985 estimated 400,000 opponents of dictators were killed and human rights abused. The rule of Yoweri Museveni, who has been the president of Uganda since 1986 has brought relative stability and economic growth to the country. During the 1990s, the government declared non-party presidential and legislative elections.<sup>23</sup>

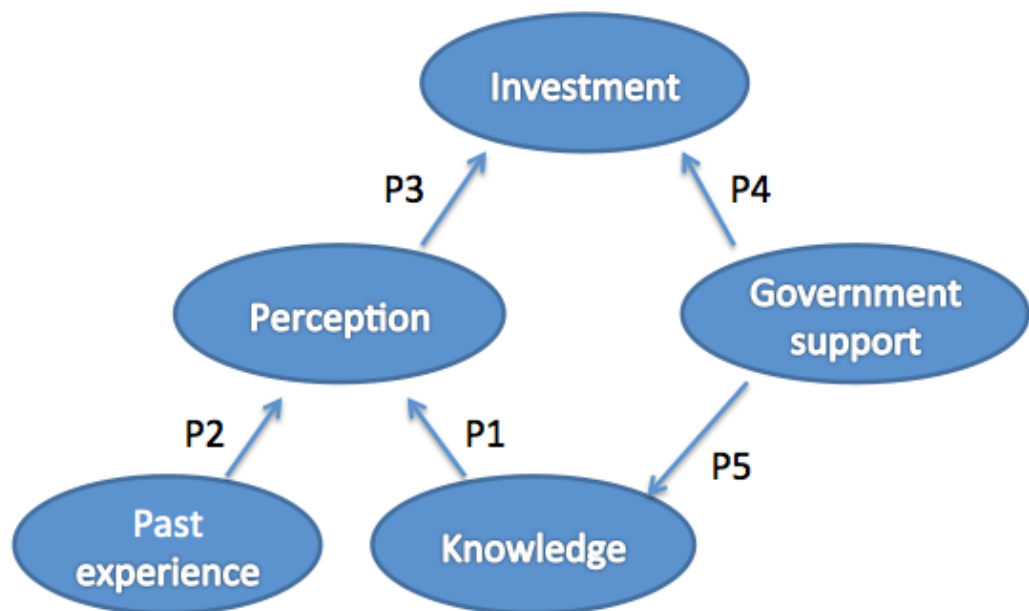
<sup>23</sup> Cia.gov. Uganda. [Retrieved 5.8.2012](#)

Uganda is much less developed than RSA and very different both risk-wise and culture-wise, thus offering me to compare the results. Currently about 5 Norwegian companies have investments there. NHO has helped firms that are already present there or are interested in investing in Uganda.

## Model and propositions

Based on the literature review and own assumptions, a model has been suggested, which may explain the process that leads to Norwegian firms investing in Africa. The model (see figure 4) then consists of several constructs and suggested relationships that are called propositions for convenience reasons. The purpose of this model and the propositions is to bring a better structure to my thinking; however I realize that at the same time the model poses restrictions to it.

Figure 4: The proposed model of the investment process



The model is created based on several constructs, which will now be explained before the assumptions are presented. The most innovative construct in this model is the Perception. The perception in this model is every manager's own picture of Africa and is consistent with the literature review, which suggests that people have their perception created based on their knowledge and past experience. Moreover, the meaning of knowledge and experience is then somewhat broader compared to the learning process in Internationalization theory. In this case, the knowledge and experience are not only gained by increasing commitment in business, but also by travelling, interacting with local people, reading news, literature etc. Furthermore, the

investment in this case means FDI in RSA and Uganda. And finally, government support, despite having three forms, is for convenience purposes treated as one construct.

The first form of government support is then of financial kind such as grants, loans. The second form is educational, for instance seminars and explaining opportunities in BMMP. And the third form is assistance of consolatory character such as opening doors, booking meetings and providing overview of the market.

Now, when the constructs are introduced, the relationships between them will be explained. Firstly, the perceptions managers of the firms have are assumingly based on two main constructs. One of them is the knowledge they have gained either during their academic studies, by studying literature, or from various other sources. Since Africa has had a bad reputation for many reasons in the long history and significant improvements in some countries have been made in just recent several years, I assume that there are very most managers, who have a relatively accurate perception of some African countries maybe ten to twenty years ago, but not necessarily the latest information. Thus, based on this assumption, it is reasonable to believe that bad knowledge of risks and opportunities, in this sense lack of up-to-date information, will lead to a negative perception. The following proposition can be then created based on this information:

**Proposition 1: Knowledge of Africa has an impact on Perception.**

The other construct that is assumed to affect perception is the experience from the past. In this case it is reasonable to assume that bad experience will have a strong negative impact on perception and thus the investment decision, and at the same time a good experience would have a positive influence on perception. However, there should be a distinction between a recent experience and at least ten years old experience. While a recent experience would have most likely very strong impact on perception, an older experience may have considerably weaker influence on perception. However, at the same time it is possible that a company, which has a very negative ten years old experience from Africa may not be interested in getting newer information because it is of the opinion that things could not change that fast and that firm may want to stay away from Africa for the future. In this case, the perception

could be far from reality and therefore may cause a wrong investment decision. Therefore, the next proposition is formulated as following:

Proposition 2: Past experience has an effect on Perception.

Moreover, the next suggestion is that the Investment is dependent on the firm's perception of Africa. Since vast majority of news about Africa in public media in the past has been negative, for instance about wars, famine and poverty, and very few Norwegian firms are present in Africa; the assumption is that a negative perception of Africa has a significant influence on the investment decision. Furthermore, due to the negative publicity, I also assume that Norwegian managers view both risks and opportunities more negatively than what the reality is. On the other hand, it is expected that firms with good perception will invest if given the opportunity. Therefore, the third proposition is:

- Proposition 3: Perception of Africa has strong influence on Investment.

Additionally, the firm's decision whether to invest or not is assumed to be influenced by government support. Just like China promotes their firms to invest in Africa, mainly due to strategic reasons, similar help may encourage Norwegian firms as well. As mentioned in the literature review, whether it is a financial support or consultancy/advisory assistance, matchmaking, it may be what significantly influences the investment decision. Moreover, since bigger firms usually dispose of more resources and have bigger capacities than small firms, it is also believed that government support has bigger effect on investment decision of small firms than bigger firms. Thus:

- Proposition 4: Government support has an influence on Investment.
- Proposition 6: Government support has bigger influence on Investment done by small firms than of bigger firms.

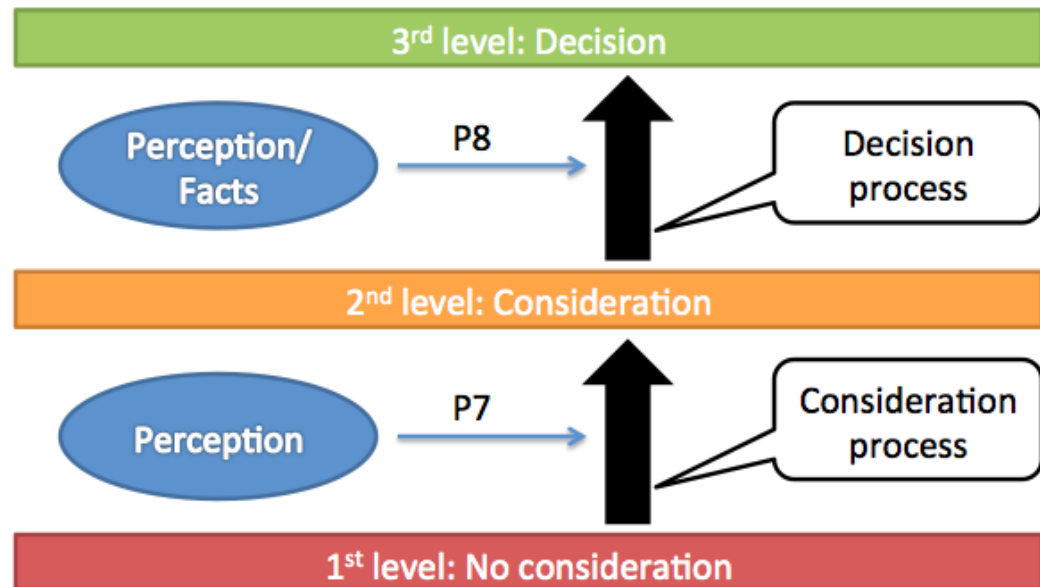
Further assumption is that the government support influences the knowledge of Norwegian firms as the education provided by for example Innovation Norway should improve knowledge of firms and thus improve their perception. This leads to the following proposition:

- Proposition 5: Government support influences Knowledge.



In addition to the six propositions, I would like to further clarify how exactly is the perception believed to affect the investment decision. Please see figure 5 below.

Figure 5: The role of perception in the investment process



As it can be seen from the model, it shows three levels of the process leading to investment decision and few new constructs. The perception in this second model is identical to the one in the first model. The Facts is an expression including everything from availability of resources, strategic objectives to estimated returns etc. Additionally, two types of processes have been identified. Consideration process in this sense takes almost no time. It is just the moment a person needs to cross the threshold from No consideration to Consideration. In contrast with that, the Decision process can take months and it is the period starting with consideration of the investment and ending with the final investment decision.

Thus, a firm at the first level may have thought of investing somewhere else in the world but has not considered at all investing in Africa. When it reaches the second level it starts considering Africa and at the third level it is able to make the decision. The main idea of this model is that perception is assumed to be the only obstacle between not considering and considering, which at the end may lead to not investing and missing the opportunity. In other words, if negative perception causes the firms not to even consider the investment, they must overcome/change this perception to be able to cross the threshold from first to second level. Moreover, even when the firm

gets to the point where it considers investing, perception is still assumed to affect the judgment, however the effect should be weaker than in the previous case as other facts, such as possible lack of resources, different priorities or long term objectives, etc., come into play and eventually the firm may decide not to invest for perfectly good reasons. As a result, it is believed that many firms do not even consider investing in Africa due to their perception. These ideas are formed in the following propositions:

- Proposition 7: Perception greatly influences Consideration process.
- Proposition 8: Perception affects Decision process but less than it affects Consideration process.

## Method and sampling

In the following chapter the research method suitable for this type of study will be presented, followed by introduction of samples chosen for the research.

### The research method

Due to the nature of this study, where no previous studies have been found, but at the same time I have suggested a model with propositions based on literature and intuition from the beginning, this thesis is exploring relationships between factors such as perception and government support. A qualitative approach has been selected with the aim to answer the questions “why” or “how” rather than “what” or “how much” (Bryman and Bell 2007).

By using in-depth interviews, the objective is to collect language data from interviewees that would help me to gain insights into social and organizational realities (Easterby-Smith, Thorpe, and Jackson 2008). As Burgess (1982, p. 107) claims: “Interview is the opportunity for the researcher to probe deeply to uncover new clues, open up new dimensions of a problem and to secure vivid, accurate, and inclusive accounts that are based on personal experience”. The interview design has been constructed as semi-structured leading to guided open interviews in order to allow for some flexibility during the interviews but at the same to make sure that all important topics are covered (Easterby-Smith, Thorpe, and Jackson 2008).

Since the goal is to reveal the meanings and interpretations that people attach to certain processes, no “objective” answers can be obtained, as those are perceptions of the interviewees. However, the interviewer should make sure not to impose their own reference frame on the interviewees, both when asking and interpreting the questions. On the other hand, too open questions may not help to obtain the right information (Easterby-Smith, Thorpe, and Jackson 2008). Therefore, the interviewer used probes in order to help the interviewees with their answers while avoiding framing the interviewees (Bryman and Bell 2007). It is also important to state that having created a model beforehand itself creates a reference frame. Due to two different kinds of sources in the sample two full interview designs are attached in the appendix.

After the data was obtained, a content analysis has been performed which means that data have been “interrogated for constructs and ideas that have been decided in advance” (Easterby-Smith, Thorpe, and Jackson 2008, p. 163). However, I also try to let the data speak for itself in order to discover more trends than those expected.

### **Sampling**

In order to conduct the proposed research, one sample with three different sources has been selected. It has been decided to focus on small and medium sized Norwegian firms (SMEs) for two main reasons. Firstly, because vast majority of Norwegian companies are small and medium sized. And secondly, the probability of interviewing the right person who is responsible for making big strategic decisions, such as whether to invest in Africa, is higher in small and medium sized firms. Moreover, due to the limited number of firms available for the research, the only conditions in selecting the companies were the actual investment, firm size and the country of investment. If possible, the preference was also to select firms that have gone to Africa recently. Other categories, such as business sector etc. could only be used reliably with bigger sample.

Based on those three conditions, I have been suggested to interview 10 suitable firms by Erik Wiken from Innovation Norway, by Leif Dons from NHO and by Eivind Fjeldstad, the managing director of Norwegian-African Business Association (NABA). From these ten firms seven agreed and from the seven interviews one firm had to be removed due to only doing sales in Africa, not any investment. Managers of five of the six firms have been personally involved in the original decision to invest in Africa. Only one firm has invested long time ago, thus the manager could not speak directly about the original perception. Since I had only limited resources and time, it was unfortunately impossible for me to interview more firms and I had not the luxury of choosing my small sample from a high number of firms. I therefore kindly appreciate the fact that the firms I interviewed invested their time in meeting me. Thus, my sample includes managers of the six following firms, three of them investing in RSA and three in Uganda (please find more information about the firms in the results in appendix):

#### **RSA:**

- Adil Osmani, *CEO*, Rubrikk.no (R.NO), IT sector – online search engines, 20 employees, approached by BMMP, never considered Africa
- Håkon Harberg, *CEO and founder*, Vidamo AS (VID), IT sector – mobile technologies, software, 7 employees, was already present in RSA, approached BMMP himself to benefit from it
- Tony Haugen, *Project Manager*, Kongsberg Seatex (KS)– Infrastructure sector – projects in oil and gas, 100 employees, present in RSA before approached by BMMP for another project

### **Uganda**

- Frithjof Wiese, *CEO*, Omega SmartBuild East Africa (OSB), Construction sector – affordable homes for low and middle class, present in Uganda for many years, helped by NHO<sup>24</sup>
- Tarje Gresslien, *Director Project Development*, and Ketil Østrem, *Area Sales Manager*, Jacobsen Elektro (JE), Energy sector – Thermal power plant, about 80 employees, present in Uganda for many years
- Erling Legran, *Managing Director*, and Inge Stølen, *Senior Director. International Business Development*, Trønder Energi (TE), Energy sector – Hydro energy, about 500 employees, present in Uganda for several years

The aim was to ask these firms mainly about the government support regarding propositions four, five and six, as they should be able to answer directly. For instance if and to what extent was government support important for them, or to what extent did government help with providing information and thus improving the knowledge. Moreover, these firms were also asked to talk about their perception, knowledge and past experience. For example if they could say how their perception developed during the years since the initial thought or how good they think their knowledge was initially compared to now. Since the sample is small, it is difficult to generalize about the whole population of firms investing in Africa, however it should be possible to identify certain trends or patterns that would help to refine the proposed model. If the results from this first part of my sample match the results from the rest of the sample, the ability to generalize should be higher.

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<sup>24</sup> I have failed to ask for number of employees and obtained no further answer.

The second part of the sample then consists of two consultants that work under Innovation Norway with the BMMP in RSA. They were asked questions mainly about perception of firms but also government support. Hans Talleraas has worked with the program for 10 years and managed to approach and deal with about 80 Norwegian companies. Torstein Wold has been with this program for almost 3 years and has dealt with 8 companies, which indicates that these two consultants have been in contact with almost one third of the total of 300 firms. Thus, they should have very clear imagination of how firms first react when approached and what perception of Africa they originally have. Overall, Innovation Norway has nine consultants around Norway that work for the program and currently Hans Talleraas and Torstein Wold together deal with about 50 percent of the agenda. Their answers, if not contradictory, should therefore be of high value.

## Results

In order to provide readers with clear overview of the results, each proposition will be briefly mentioned, complemented with a statement whether it has been supported or not. A more detailed, thorough discussion of each topic will be presented in the next chapter. Due to the research design and selected sample the results presented are mostly not generalizable to the whole population of Norwegian firms however they can serve as a foundation for future research. Please see the whole summary of results in the appendix.

The first proposition suggested that the perception of Africa is created, among other things, by a firm's knowledge of Africa. From the firms the following results were obtained. Manager of one firm admitted that his original knowledge was low and thus his perception was wrong. The other five firms, which had a positive perception from the beginning, when asked, all claimed that it was very mostly due to their good knowledge of Africa. The consultants both stated that very most of the firms they have dealt with have a bad knowledge of Africa, mainly in terms of being aware of the negative aspects but not knowing the opportunities, which leads to wrong original perception. Thus, I found good support for proposition 1 within the sample.

- Proposition 1: Knowledge of Africa has an impact on Perception. – **SUPPORTED**

Similar to the first proposition, the second proposition also suggests how the perception is created. According to this proposition, Perception is also formed by a firm's personal experience. The levels of past experience when doing the investment in the sample differed greatly. One firm stated they had no previous experience from Africa. Another company had no previous experience either but claimed that they do not need any; that is why they have a local partner. Additionally, one firm stated that their original experience was low but they have followed the Nordic way of increasing commitment and gaining knowledge and experience by originally starting with exports and eventually becoming an investor. Moreover, one company claimed they had good experience from other less developed countries, which has helped them. And finally, two firms stated that they had experience from Africa from before,

mainly due to living there for a long period of time. All those who had at least some experience from before claimed to have good knowledge of Africa, and at the same time a positive perception of Africa. Furthermore, both consultants mentioned that most of the firms approached in BMMP do not have any experience from Africa and perception of those who have in most cases is positive. Therefore, it seems that if firm has any experience, that experience will affect perception. However, due to the high number of firms having no past experience it appears that the construct of Past experience may be inaccurate and need modification. This will be further discussed in the following chapter.

- Proposition 2: Past experience has an effect on Perception. – **PARTLY SUPPORTED**

The third proposition was general and suggested that a firm's perception of Africa, whether it is positive or negative, does influence the investment decision. As it has been mentioned earlier, especially when referring to perception, the second part of a sample should have more valuable answers. From the six firms, a manager of one firm stated that his original perception was negative but due to the learning process in the BMMP it has greatly improved eventually leading to investment in RSA. The five remaining firms had a positive perception prior to investing, mainly viewing Africa as a land of opportunities, which also led to the investment. Of the two consultants, Hans Talleraas estimated that about 90 percent of companies he has dealt with had wrong original perception of Africa and Torstein Wold claimed that most companies originally had a wrong perception of Africa due to low knowledge and both added that if those firms were not informed about the opportunities by Innovation Norway, they would have probably not invested in Africa.

These findings then lead to fully supporting proposition 3 within the sample. However it seems that the way perception influences investment and what perception firms have partly differ from what was assumed before interviewing. Therefore, I would like to further discuss this in the following chapter.

- Proposition 3: Perception of Africa has strong influence on Investment. – **SUPPORTED**



In order to explore how the perception of Africa influences the investment, propositions 7 and 8 have been suggested. In case of proposition 7, the results obtained from firms are similar to the results in proposition 3. One firm claimed that due to bad knowledge and thus wrong perception the management has never considered Africa as a business destination. The other firm's positive perception led to considering Africa for investment. Moreover, both Hans Talleraas and Torstein Wold estimated that of all the firms approached within the Matchmaking programme very most have never thought of Africa in terms of doing business there. Therefore, proposition 7 has been supported within the sample.

In case of proposition 8, the one firm that had wrong perception originally, has managed, due to the assistance of Innovation Norway, to change that perception dramatically toward more positive, thus the original perception did not have an impact on the final investment decision. All the other companies already had a positive perception when considering the investment. Moreover, both consultants were asked if they think that the original negative perception of firms has influence on the final decision and they both answered that in their opinion it does not, since firms change their perception as they start considering the investment and gather more information. Thus, no evidence has been found to support proposition 8, which indicates that the proposition should be modified.

- Proposition 7: Perception greatly influences Consideration process. – **SUPPORTED**
- Proposition 8: Perception affects Decision process but less than it affects Consideration process. – **NOT SUPPORTED**

Moreover, the proposition number 4 aimed to examine whether government support has any influence on the investment. Of the six interviewed firms, all of them stated that government support has been important for them when investing in Africa. Furthermore, three out of six companies called government support essential for the investment. The two consultants claimed that most of the firms that eventually invest in Africa would not do it without the help of Matchmaking programme. These results are in line with the report made by Devfin Advisers (2010), who found that all the firms matched by the BMMP viewed the help of Innovation Norway as important and

out of those two thirds viewed the help as essential while one third of those firms would invest in Africa anyway. This leads to supporting proposition 4.

- Proposition 4: Government support has an influence on Investment. – **SUPPORTED**

Additionally, the purpose behind proposition six was to find out if small firms depend on government assistance to a larger extent than bigger firms. Despite both consultants claim that in general small firms need more both financial and advisory assistance, no clear pattern has been found among the interviewed firms. In fact, a company such as Trønder Energi, the biggest from the sample, is just as dependent on government support as Rubrikk.no, which was one of the smallest firms in the sample. The only difference was in the types of support crucial for those firms. To support this proposition with confidence, much broader sample would be needed as well as it would have to contain the very biggest firms in Norway such as Yara, Statoil or Norsk Hydro. Therefore due to the small sample the proposition cannot be fully supported.

- Proposition 6: Government support has bigger influence on Investment done by small firms than of bigger firms. – **PARTLY SUPPORTED**

And finally, proposition number five was created to see whether knowledge of firms is influenced by government support. As is has been mentioned earlier, from the firms only one had a negative perception originally, the other firms had a positive perception already. But in the one case it was the BMMP that provided knowledge to the firm as well as covered travel expenses to visit the location in Africa, which both helped to change perceiving towards more positive. The consultants claimed that the initial phase, where they talk to firms trying to pin point the opportunities and provide more information, and especially the following phase with personal visit are very important in order to make managers to consider the investment. Thus, support has been found for proposition five. However, it seems like it is not only the knowledge that the government support influences. This will be further discussed later on.

- Proposition 5: Government support influences Perception. – **SUPPORTED**

## Discussion

In the following section I would like to discuss more into depth not only the results presented in the previous chapter, but also trends that can be seen from the results, views of firms about risks, opportunities and their future plans in Africa.

### Perception

As already mentioned in the results, support for strong impact of perception on investment has been found within the sample. However, the explanation of how perception influences investment and what perception firms have partly differ from what I assumed before conducting the research. Originally, it has been assumed that managers of firms may have a negative perception of Africa due to wars, crime, poverty etc., which would make them neglect the opportunities and refuse the investment. Moreover, the assumption was also that certain firms might not be willing to proceed further in discussions with for example Innovation Norway once they hear the word “Africa”.

In fact, it does not appear like such companies that would completely refuse the investment just because of their perception of Africa, exist. Instead, it seems like the perception is rather wrong than negative due to bad knowledge and low awareness of Africa. As Torstein Wold (BMMP) explained, the original perception of firms is “not really negative but rather wrong”. In fact, the companies are just “not aware of the possibilities. They are not updated. Africa is not on their mind at all. When I start to educate them about opportunities, give overview of the market, they eventually say why not...” and he also added that: “Often managers regard Africa as one country, not realizing the huge differences among its countries.” According to Adil Osmani (R.NO), his prior perception was that “Africa is so far away”. He knew what nature and animals they have but added, “When you hear about Africa, it is almost always negative, so I have not regarded Africa as a market at all.”

Furthermore about perception, out of the six firms, those who already had good knowledge and positive perception prior to investing, keep their positive perception or change it to even more positive. Nobody changed from positive towards negative

perception when being in Africa. One firm claimed their perception has not got any better but not worse either. Two firms stated that their perception has changed from somewhat negative to a more positive. For example Inge Stølen (TE) stated that some of his colleagues were “quite skeptical” towards their involvement in Africa, but when they visited the plant in Uganda, they became “much more optimistic.” Terje Gresslien (JE) added that he could lately see “higher focus of African countries on transparency, increased professionalism as the countries talk to each other more, and less one-on-one negotiating and more competitive bidding.”

Moreover, I would like to elaborate more on how exactly the perception influences the investment decision. The proposition 7 about the effect of perception on the consideration process has been confirmed as mentioned in the results and can be backed up with the statement of Hans Talleraas (BMMP): “Lack of knowledge (and thus wrong perception) is the biggest reason for firms not considering investing in Africa.” However, when asking Torstein Wold (BMMP) if he believes that the original perception has any effect on the decision process or the final decision (Proposition 8), he claimed: “Hardly any at all, when firms with low knowledge search for information, visit Africa, it changes their perception rapidly.” This in fact seems to be in contrast with the theory by Pomerantz (2006) presented earlier, as he states that the perception we create for the first time is relatively resistant towards changes in the environment. That could possibly be explained by the fact that it should be easier to change perception of an individual with very low original knowledge via education, then for example change perception of someone who has lived in the environment for long time and would be presented small changes in the environment.

Additionally, I would like to discuss what the factor that changes the perceptions of people most is. All managers of companies and both consultants agreed that personal visit in African country is the most important in order to have a clearer picture of that country. As Torstein Wold (BMMP) put it: “You have to be there and see it yourself.”

A very important part of the perception is the knowledge of managers. As it has been mentioned earlier, the knowledge of Africa among most Norwegian managers seems to be outdated and very low. Most of the time people are served only negative news

from Africa by media, including wars, poverty, famine, but unless someone actively searches for information about growth, improving literacy etc. in specific sources, it is hard to come to that kind of information. From the results obtained in this study, it seems that at least some level of up-to-date knowledge of Africa is absolutely essential in order to be able to consider the investment. Five firms that claimed to have good knowledge originally have invested in Africa. The one firm that did not have the knowledge would not invest without an initiative by Innovation Norway and as the consultants claimed, very most firms first approached in BMMP had low knowledge and thus have never considered Africa for business.

The firms have also been asked about their source of knowledge. Håkon Harberg (VID) answered that he “would not invest in RSA” without his long time South African friend, whom he gained knowledge from. Moreover, few others claimed that they spent long time travelling through the continent. Furthermore, Erling Legran and Inge Stølen (TE) stated ”they would not invest in Africa if they did not have one manager with high knowledge of Africa.” And finally, Adil Osmani (R.NO) would have not invested in Africa without the knowledge provided by Innovation Norway. This indicates that it does not matter whether it is the government, schools, media or friends who educate managers, but the knowledge itself is absolutely necessary for consider the investment.

Another construct that was assumed to affect the perception was the past experience. As it has been mentioned in the results, proposition 2 was only partly confirmed within the sample due to few firms having past experience from Africa. But perhaps the way the way the past experience was used to explain the model has been inaccurate. It has been originally assumed that it is the past experience, i.e. experience before the firms consider investment that forms the perception. However, as explained in the second model of perception (figure 5), the investment act does not happen suddenly but it is rather a process, which can take months, where firms first start considering the investment and continue by examining market etc. During this investment process it is not only knowledge that improves due to gathering information from various sources, but also the level of experience increases as new experience is gained. For example, before the investment decision is done, the management has had to spend some time in Africa to meet African managers,

officials, workers, and culture in general, which all creates a new experience. Therefore, to be more precise, from now on I will refer to only Experience as one of the factors, not Past Experience.

Yet one significant difference in the effects of knowledge and experience can be seen from the results. While the investment decision cannot be done without good knowledge, experience is helpful but not crucial. For example according to Håkon Harberg, Vidamo did not need any experience when setting up its business in RSA due to having a reliable local partner. Similarly, as Terje Gresslien stated: “Jacobsen Elektro had low previous experience from Africa prior to investing, but followed the Nordic way of going international, with low initial commitment and increasing it over time.”

### **Government support**

First of all, I would like to elaborate on the results. Government support was described by all firms as important, however the level of importance among those firms differed. While half of companies called the government support essential to be able to make the investment, as for example Inge Stølen (TE) put it, “Without Norfund and Norad we would not be there”, the other half of firms stated that the government support was of great help but not essential. For instance Håkon Harberg (VID) claimed that: “Innovation Norway has done a wonderful job in opening doors for us and giving us an overview of the market we did not know of, but we would invest in RSA anyway.” Now it could be argued that without government support the firms would not be in Africa but possibly somewhere else, which could be even better for them. This is of course legitimate objection but the fact that a firm such as Vidamo, which has already been present in Africa, appreciates the support, leads me to believe that the government support makes sense.

Moreover, the variety of answers as to what kind of government support companies appreciate most should be discussed. Rubrikk.no, as a relatively small firm, greatly appreciated both financial support (such as Norad’s support for feasibility study or first travel) and advisory and consolatory support (such as feedback and opening doors). Vidamo was not dependent on financial support of government however opening doors was very important for them. Omega SmartBuild appreciated most

financial support from Norfund and Norad and opening doors from NHO. Jacobsen Elektro has heavily relied on GIEK and for the future sees support for infrastructure from Norad and investment loan from Norfund as interesting. Trønder Energi for example has been relying on Norfund not only as a co-investor but also for opening doors, backing up project in case of difficulties and good providing knowledge of international project financing, and on Norad for its support for infrastructure. Kongsberg Seatex has mainly appreciated the opening doors in the BMMP.

As it can be seen, it is difficult to see clear trends as to what kind companies need what kind of support. It should in general be that small firms with fewer resources should be more dependent on financial support but in this sample the biggest firm Trønder Energi is one of those that need financial support most. Therefore, the only kind of support that can be called very important for all companies within the sample is opening doors.

Furthermore, the different kind of government support mentioned by firms can be split into three types. One type is such that seem to influence directly the investment and includes mainly financial support such as grants, loans and guarantees. The second type of government support then seems to have effect on knowledge and the third then on experience. With regards to knowledge, it includes for example government seminars, government organized business trips or the initial phase of BMMP where the consultants try to educate managers about the opportunities and give them up-to-date information. With respect to experience the main factors that influence experience positively are opening doors and creating contacts and matchmaking.

To give an example, most of the managers expressed themselves in the sense that opening doors “made their lives much easier” and “created very positive experience”, which indicates that without that kind of assistance the firms would struggle more with arranging meetings etc., which would lead to worse experience in Africa. All of these types of government support appear to be very important for firms; especially the one in relationship with knowledge may be absolutely crucial if the lack of knowledge is the main reason for the wrong perception of many firms.

## Risks

As a part of the interviews, managers of the companies have been also asked about the risks – what are their biggest concerns in Africa. Out of the six firms, three firms based in Uganda mentioned political risk as one of the main concerns, while the other three based in RSA have not mentioned that at all. In Uganda, all three firms mentioned that political instability makes future difficult to predict. As Frithjof Wiese (OSB) stated: “Political risk is a problem, because you can only look a month ahead at the time.” However, despite the political risk being high, certain measures can be taken to shield against it. For instance Trønder Energi has had insurance to protect them against political instability. Jacobsen Elektro has also found ways to deal with this. As Terje Gresslien claimed: “The political risk is high but financeable, thus creating us a niche competence.”

Another type of risk widely mentioned was corruption and bureaucracy. Due to this risk everything takes more time, which leads to longer expectations of returns. In case firm encounters corruption, it is necessary to have and follow clear policies against it and make sure everybody knows that, because otherwise, as Frithjof Wiese (OSB) explained, “if you pay once, people will find out and then everybody will expect that from you.” While most companies view corruption and bureaucracy as serious threat, some claim they have found ways to deal with it. For instance Tony Haugen (KS) stated that: “In order to deal with these issues we try to always find a local partner.” Håkon Harberg (VID) uses the same strategy and added that: “It is important to stay low. If you do hard lines like Telenor or deal in oil and gas, you know you are going to make a lot of money and somebody will want to have some of it.”

Chinese competition has been also mentioned as a significant risk by few firms. For example Tony Haugen from Kongsberg Seatex stated that it is difficult to compete with the Chinese because they “do not have the same policies against corruption as we do.” Frithjof Wiese (OSB) added that Chinese competition is “so far manageable but hard” and they need to have very strong rules and security as to how close to the construction site can Chinese get, because “every Chinese has a camera and they try to record everything OSB is doing.” Other firms do not regard Chinese competition as a problem mainly because, as Erling Legran (TE) explained, “Chinese are interested only in the really big projects. If we bid for project with 50 MW of power,



Chinese are more interested in 500 MW.” Terje Gresslien (JE) agreed with that and added: “Our strategy is not to be cheap, we build on our technology and reputation as a more expensive but reliable company.” In one case, Trønder Energi even welcomes the competition of Chinese, which leads to lower prices, as they use them as contractors to build the power plants.

Moreover, three firms listed the inability to pay among their concerns. With regards to Uganda, Frithjof Wiese (OSB) explained that: “Some time ago the president of Uganda bought 5 fighter jets from Russia, which left him with no money. So he raised mortgage loans for people buying our houses to 32 percent and they cannot afford it now.” Similarly, Ketil Østrem (JE) stated that: “In Uganda they can use all money on elections and have nothing left to pay with.” According to Tony Haugen (KS) it is important to use “a proper funding, a letter of credit.”

Furthermore, some more risks have been mentioned during the interviews. One of the risks that pose a challenge for Kongsberg Seatex or Trønder Energi is lack of infrastructure. As Erling Legran (TE) claimed, without a help of Norad and its grants for infrastructure, Trønder Energi would not have been able to realize the projects in Uganda. Additionally, Håkon Harberg (VID) stated with respect to RSA that it is “very hard to get the money out of the country when you make it.” And finally, one more issue mentioned was difficult law enforcement in Uganda. According to Frithjof Wiese (OSB) people “sign contracts with you, but if they do not like it anymore, they rip it and just say “sue me”, which is almost impossible in Uganda.”

Thus, the company that decides to do business in Africa must be well prepared to deal with high level of risk.

### **Opportunities and future plans**

As it could be seen from the previous chapter plenty of extremely high risks affect doing business in Africa. However, when managers of companies were asked about their future plans in Africa, all six of them, including those facing the hardest challenges, answered that they would like to expand their businesses. That implies, considering the very high risks, that the opportunities must be even higher. As Tony Haugen (KS) put it: “Opportunities are definitely overwhelming in contrast to the

risks, the firm must just learn to deal with them.” Moreover, Frithjof Wiese (OSB) added that: “If you have the right product that people need, the opportunities are great.” Furthermore, Håkon Harberg (VID) even claimed that: “Whoever does not jump on the opportunity in Africa now, will be late.”

And finally, all firms claimed that the return on investment is great or at least fair. Considering how expensive it must be for instance to insure a big power plant for the total value of investment against political risk in Uganda, together with other extra costs related to risk, if the return on investment is still good, it implies that the opportunity must be great.

I would like to state here that I am knowledgeable of the fact that the sample of six firms is not generalizable to the whole population of Norwegian firms in Africa. Yet I believe that the unanimous answers of firms are rather surprising and a strong indication of the great opportunities, which could be confirmed by a possible future research.

Moreover, it is clear to me that Africa is not the only land of opportunities around a world, however, if a manager shall make as good investment decision as possible, he or she must consider opportunities even in places such as Uganda and RSA, which are not in the center of attention. Otherwise, by limiting his or her scope to only well known places it could miss good opportunities.

## Trends

This chapter discusses some trends that can be identified in the results. First of all, it seems that one criteria that can make doing in business Africa much more difficult is the need to deal with a local government. Those firms, that bid on government projects, such as Omega SmartBuild or Kongsberg Seatex have much harder time fighting against corruption while firms that only deal with other companies in the private sector, such as Vidamo or Rubrikk.no claimed that they have never encountered corruption. As Frithjof Wiese (OSB) put it: “It would be much easier if I did not have to deal with the government.”

Secondly, it seems that the size of firms may also play a role in relationship with need for government support, Chinese competition and corruption. Even though I have not

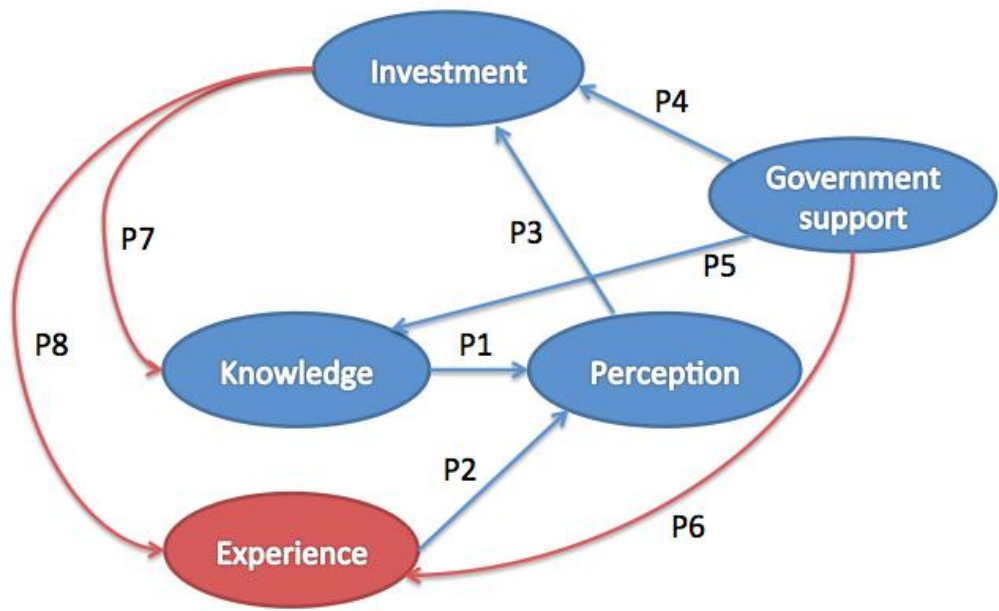
managed to confirm the link between the firm size and need for government support, I believe it should be further investigated. Furthermore, with regards to Chinese competition, it appears like the bigger the firm is and the bigger projects it targets, the more intensive Chinese competition is can expect. As Håkon Harberg (VID) explained, Chinese competition “is on whole different level, facing firms like Statoil, Yara, etc.” Moreover with respect to corruption, as already stated earlier in the discussion, it seems that with increasing size and profits a firm can expect that it may become attractive for corruption.

And finally, the last trend that can be partly seen in the small sample is that the more risky, unstable the country is, the higher is the need for government support. According to Tony Haugen (KS), South Africa is “fairly easy to do business in, but in other African countries we would appreciate the government assistance much more.” Moreover, only 1 out of 3 firms based in RSA claimed the assistance was essential compared to 3 out of 3 firms in Uganda.

## The refined model of perception and government support

Based on the results and discussion I would like to propose a new model of perception and government support in investment decisions, which would serve as a foundation for further research. The originally introduced models have been modified to reflect the knowledge extracted from the results of this study. Please see the model of the investment process in figure 6 below:

Figure 6: Modified model of the investment process



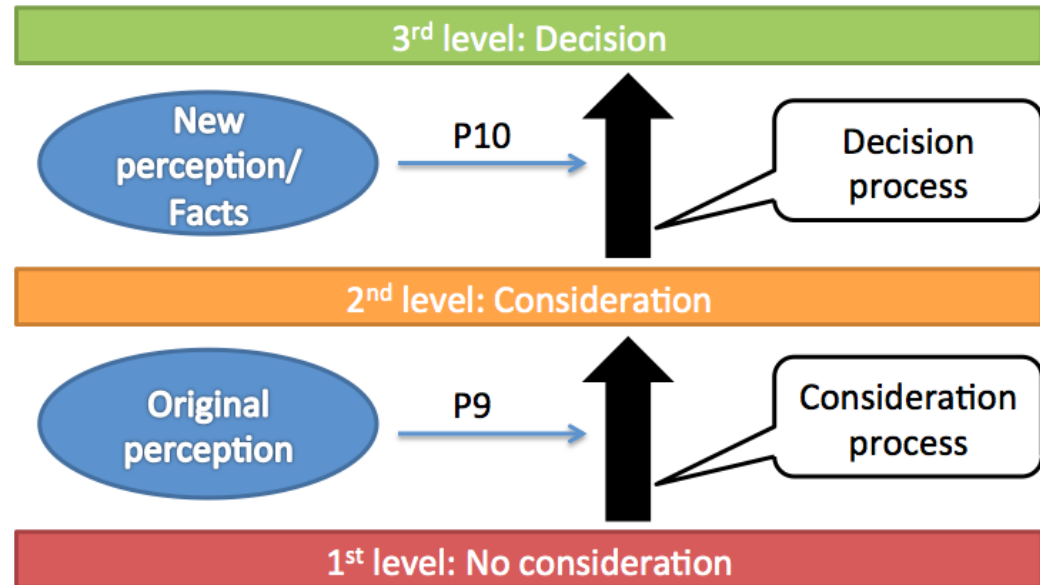
As it can be seen comparing the modified and original model, despite most of the model (propositions P1, P2, P3, P4 and P5) has remained unchanged, some significant adjustments have been made (shown in red color). First of all, the original construct Past experience was replaced by Experience based on the explanation provided in the discussion. Secondly, in order to reflect upon the results regarding the relationship between the experience and government support, an extra proposition (P6) has been added. And finally, to implement the results related to future plans of firms, two additional propositions (P7 and P8) have been added to create a reinforcing loop in the model.

The new propositions are then as following:

- P6: Government support has a positive effect on Experience.
- P7: Investment leads to a better Knowledge of Africa over time.
- P8: Investment leads to more Experience from Africa over time.

The second model, the model of perception has also been slightly modified, as it is shown in figure 7 below:

Figure 7: The modified model of perception



Two minor changes have been introduced in this model. The construct Perception in proposition P9 has been replaced by Original perception and in proposition P10 by New perception. The main reason for this modification is to highlight the difference between the perceptions at the 1<sup>st</sup> level and at the 2<sup>nd</sup> level, which has been explained when discussing P8.

- Proposition 9: Original perception has a strong effect on Consideration process
- Proposition 10: New perception has effect on Decision process.

The explanation beyond the models is then following. As an example, let us suppose that a typical company from the BMMP that is not updated, has low knowledge of Africa and thus has never considered investing in Africa. Such firm is then approached by the consultants of BMMP of Innovation Norway, who educate the firm's management about the opportunities etc. (P5), which makes the managers to

consider the investment (P9). Subsequently, the company starts to look for more information and travels to Africa to meet potential partners while being followed and further assisted by Norwegian government (P6), which creates more positive experience than the firm would have without any assistance. This better knowledge with positive experience lead to more accurate perception (P1, P2), which then, together with financial support of government, have a strong effect on the investment decision (P3, P4). Eventually, this investment will help the company over time to get even better knowledge (P7) and more experience (P8), which will, in addition to possible further government assistance (P5, P6) refine the perception (P1, P2). This perception will then finally lead, along with more financial government support, to a further investment (P3, P4).

Furthermore, despite in most cases the government support has a great effect on both investment and perception, in some situations the main reinforcing loop of the first model can work even without the government support. For instance, when the source of knowledge or assistance is not government but a friend, a business or life partner etc..

Finally, since it is not only Africa that has a negative image, the proposed model may be also applicable to other LDC's, where risk is high and the perception is negative or wrong, such as Vietnam, India (Sri Lanka) etc. According to Eivind Nyhus (INN - retired 2012), Innovation Norway runs the BMMP not only in Africa but also in India and Vietnam, where, as he claims, "the issue of perception is very similar."

### **Why new model?**

This sub section aims to explain why this model is more applicable to the investment process of firms in LDC's than other already known models. Similarities can be seen between my model (figure 6) and the Uppsala model in figure 2. However, while both models describe the loop of increasing learning and commitment, my models proposes a few major differences that can be found.

First of all, the main and most important construct in my model is perception, which I have not found to be studied in relationship with international business. While it could be argued that the concept of Psychic distance is somewhat similar to the

Perception, I believe at least one major difference can be found. Although both concepts are based on psychology, they differ in terms of what managers can do to deal with them. Let us imagine person 1 from culture A and person 2 from culture B. In terms of Perception, it only depends on person 1 to what view will he or she have of culture B. If person 1 one wants to change his or her perception towards culture B, they can just go to visit culture B or read a book, newspaper etc. Therefore, the Perception can be formed and refined relatively easily.

On the other hand, psychic distance stands for all the differences between cultures A and B that make doing business difficult and a person cannot just recreate his opinion to change this psychic distance between the cultures. Thus, unless person 1 converts from culture A to culture B, he or she has to learn to live with the psychic distance. In other words, if there is a motivation, it is much easier to overcome the deficit in wrong perception than the deficit in high psychic distance. Therefore, in the case of LDC's where lots of managers fail to consider those countries for investment, I believe the Perception is more appropriate construct than the Psychic distance.

And secondly, one more dimension is added in the proposed model compared to the Uppsala model and that is government support. It seems from the results that due to the high risks lots of companies would not dare to invest in Africa without a government support, making it an important part of the proposed model, if the model is to explain the investment process of these firms.

Thus, due to the two additional constructs, I believe that this model has better explanatory power of the investment process of firms in LDC's than other existing models. It is important to emphasize the part of previous statement "in LDC's", where risk is high and reputation is bad, since in developed countries that are closer to the center of attention perception and government support are likely to play a less important role in the investment process.

## Conclusion

This chapter starts by presenting a brief summary of the conducted research, which will be followed by subsections about the significance of results, practical implications, limitations of this study and finally suggestions for future research.

Using the psychological perspective, this thesis has investigated why Norwegian firms are reluctant when it comes to investing in Africa and moreover how Norwegian firms view their investments in Africa and what their future plans are.

In this investigation, the aim was to assess if, and to what extent, the perception of Africa has an impact on the investment. The secondary objective of the research was to show if and to what extent support from Norwegian government influences the investment.

Six firms and two consultants from the Business Matchmaking Programme were interviewed to provide results for the present research. One of the most significant findings to emerge from this study was that knowledge is an absolutely crucial element of perception, which appears to be what keeps a high number of firms away from considering the investment. Furthermore, the second major finding was that the opportunities in Uganda and the Republic of South Africa overwhelm in contrast to the risks, thus is it worth for firms to expand.

Additionally, based on the results and as discussed a theoretical model of perception and government support has been introduced in order to better capture the investment decision process of companies in Less Developed Countries. The models are based on several propositions, which cannot only serve as practical implications but could also become a foundation for possible future studies.

Despite the two consultants from the Business Matchmaking Programme have dealt with almost one hundred companies, only six representatives of firms have been interviewed directly in this research, which indicates that while patterns can be found in some of the results, more convergence is needed in others. Therefore, a particular emphasis has been put on making sure that results are generalized only up to certain



extent and not in any case to the whole population of Norwegian firms in Africa. Further study should be done to confirm the suggested propositions.

### **Practical implications**

Despite more research is needed to confirm the presented results, I would like to mention few practical implications of this study not only for managers of firms, but also for educational institutions and the Norwegian government.

First of all, implications for managers will be presented. This research indicates that among Norwegian managers the awareness of Africa as a business destination and the up-to-date knowledge of Africa is very low. According to Torstein Wold from the BMMP, when considering doing business abroad, Norwegian firms think “first Scandinavia, then Europe and the next thing is Asia.” By not having Africa on the mindset some companies may miss great opportunities. As Hans Talleraas (BMMP) added, close to 50 percent of the companies approached that have never considered Africa for business purposes get successfully matched with an African partner. Therefore, it seems like the low awareness and lack of up-to-date knowledge in many cases are the main reason for firms neglecting the opportunities and lead to potentially wrong investment decision.

Moreover, despite the very high risks mentioned in the interviews, all 6 firms claimed that their plan for the future is to expand, which indicates that the opportunities for the right firms are great. Therefore, the suggestion to managers is to actively seek for information and to challenge their perception by realizing that with a right product and approach good business can be done even in places that seem hostile or too risky; the most well known option may not be the best option. Allowing themselves to open their mindsets to the idea that the business world is bigger than what they have thought, may reward them and their company.

Secondly, implications for educational institutions will be provided. As it has been mentioned earlier, lack of up-to-date knowledge and thus wrong perception of Norwegian managers appears to be in many cases what stands in the way between no consideration and consideration of the investment. At the moment, while BRIC countries are fully emphasized in the lectures about emerging markets, African

countries or even some other LDC's are not mentioned in connection with business at all. Here, business schools not only around Norway can play an absolutely crucial role in educating future managers as just a very small piece of information could have huge impact on the thinking of people.

And finally, this research has also implications for governmental institutions such as Norad or Innovation Norway. Norwegian government has already done a good work in promoting business, which helps to develop Africa. However, being suggested where the main obstacles lie between firms and the investment, Norwegian government should focus even more on the educational aspect of assistance, if its aim is to get more Norwegian companies to invest in Africa.

### **Limitations of this study**

In this chapter some of the limitations of this study will be presented. Due to the research design with in-depth interviews with limited resources, I could not have used the bigger sample. But it would be more beneficial to allow me to generalize if results from more companies were obtained. With the small sample used in this research results may be generalized only very carefully. Another issue with the sample was that two out of three firms that took part in the BMMP were present in Africa already and thus had good knowledge and perception of Africa, which is not in proportion to the statements of the consultants, that 90 percent of firms in BMMP have never considered Africa. Again, a bigger sample should eliminate this issue.

Moreover, by suggesting a model that proposes relationships based on the literature review and intuition, I have achieved to better structure my mind for the following work. However, it was only at the expense of partial restriction of my thinking, as I may have missed some explanations or meanings both during the interview and analysis process. Despite this restriction of mind, I feel satisfaction with choosing this research design, as it allowed me focus on what I believed was important.

Furthermore, lots of information presented especially in the literature review has been cited without much questioning and criticism. In some cases it would be possible to go into more depth and try to always find arguments against to achieve better balance, however sometimes I was just satisfied that at least some sources have been found to

cover the topics. Additionally, the results or statements of people from Norad and Innovation Norway have not been questioned much either, but that was not the aim of the study. For example, if the partial objective of the study was to find out if government support has a positive effect on investment, the purpose would then be to find out support for that statement, not to try to find if the investment is good for firms in the first place. Moreover, I did not have the knowledge or alternative sources of information to be able to question the answers.

### **Suggestions for future research**

Due to the need of future confirmatory research, a suggested method and design for future study will be presented. In order to support new propositions presented in this study, a much larger sample of firms will be needed. One way to carry out the research could be a highly structured questionnaire with alternative answers provided that would properly explain the constructs. The results obtained could then be quantified. Another way would be to use again the qualitative approach as questions of “how, why” are will still play a major role in the study. The confirmatory research should then focus not only on the propositions suggested by this study but also on the trends mentioned in the discussion. The extreme importance of the knowledge and the existence of great opportunities should be of particular emphasis.

Furthermore, I believe that the proposed theory may be applicable not only to African countries, but also to other Less Developed Countries, where risk is high and the perception is negative or wrong, such as Vietnam, India (Sri Lanka) etc. According to Eivind Nyhus, a senior advisor for Business Matchmaking Programme (retired 2012), Innovation Norway runs the programme not only in Africa but also in India and Vietnam, where, as he claims, “the issue of perception is very similar.” Therefore, it could also be of interest to try to verify the theory in other Less Developed Countries.

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3. <http://www.worldbank.org/depweb/english/beyond/global/glossary.html>
4. <http://www.oecd.org/investment/investmentpolicy/2090148.pdf>
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24. No link



## Appendix

### List of abbreviations

LDC	Less developed country
BRIC	Brazil, Russia, India, China
FDI	Foreign direct investment
OLI	Ownership/Location/Internalization
OECD	Organization for Economic Co-operation and Development
Norad	Norwegian Agency for Development Cooperation
GIEK	Guarantee Institute for Export Credits
NHO	The Confederation of Norwegian Enterprise
INN	Innovation Norway
RSA	The Republic of South Africa
BMMP	Business Matchmaking Programme
GDP	Gross Domestic Product
IMF	International Monetary Fund
SME	Small and Medium Enterprise
NABA	Norwegian-African Business Association
R.NO	Rubrikk.no
VID	Vidamo
KS	Kongsberg Seatex
OSB	Omega SmartBuilt East Africa
JE	Jacobsen Elektro
TE	Trønder Energi
PDI	Power distance
IDV	Individualism
MAS	Masculinity
UAI	Uncertainty avoidance
LTO	Long term orientation

## Introduction for interviews

" Africa has had and still has a negative image with reference to establishing a commercial viable enterprise for various reasons such as:

- bad governance (corruption)
- mainly negative press releases
- low /negative return on investments
- lack of educated manpower
- the African market is limited
- investment climate is difficult- the framework does change/can be changed"

The objective of this study is to try to explore if the perception (image) of Africa has an influence on a possible decision to invest in Africa.

Secondly the study has as objective to quantify to what extend (if any) government support (financial or on consultancy basic) does contribute towards a decision to invest in Africa.

## Interview guide for firms

- 1) Can you please introduce yourself and the company?
- 2) When did you invest in Africa?
- 3) Has government support (Norad, Norfund, Innovation Norway...) helped you with anything regarding the investment in Africa?
- 4) How has it helped?
  - a. What has been most important?
    - i. Matchmaking
    - ii. Support for feasibility study
    - iii. Support for training related to investment
    - iv. Support for infrastructure
    - v. Support for training related to export

- vi. Support for product development related to production in a developing country in order to raise the quality standard so the product can be sold on the Western Markets.
  - vii. Investment loan from Norfund
  - viii. Consultancy
  - ix. Creating contacts
  - x. Guarantees
- 5) What perception of Africa did you have originally?
- a. What were you afraid of most?
    - i. Lack of opportunities
    - ii. Too high risks
      - 1. Corruption
      - 2. Bureaucracy
      - 3. Political risks
      - 4. Limited market
      - 5. Lack of educated manpower
      - 6. Too low return on investment
  - b. How would you evaluate your knowledge of Africa when you first started considering investing there?
- 6) How has that perception changed overtime?
- 7) Has government contributed to this change?
- 8) Is there anything you would like to see from the government?
- a. New or to be improved
- 9) What are your future plans in Africa?

### **Interview guide for consultants**

- 1) Can you please introduce yourself, your job and how long have you been working with the program?
- 2) How do you start a discussion with a firm for the 1<sup>st</sup> time?
- 3) What perception do they have?
  - a. Have they ever thought of Africa?
  - b. What seems to be their biggest concern?
    - i. Lack of opportunities
    - ii. Too high risks
      - 1. Corruption

2. Bureaucracy
  3. Political risks
  4. Limited market
  5. Lack of educated manpower
  6. Too low return on investment
- c. What usually convinces the firms?
- 4) How has that perception developed during the years?
  - 5) To what extent does the original perception affect the final decision?
  - 6) To what extent does the matchmaking program influence the final decision?

## Summary from interviews

### Firms

#### **Interview 1: With Adil Osmani, CEO of Rubrikk.no**

- General info
  - IT sector, search engine for classified adds
  - About 20 employees, also uses offshoring
  - In South Africa since 2011, matchmaking process since 2009
- About government support
  - Matchmaking from Innovation Norway, Feasibility study from Norad and IFU program
  - Government support was essential to reduce risks
  - Matchmaking reduced greatly financial risk (financed travel...), opened doors and gave feedback, consultancy
  - Would not go there without Matchmaking
  - Financial grants were essential as well
- About original perception
  - Original perception of Africa is that it is so far away
  - Original knowledge was very limited
  - First associating animals, nature, etc., not with a business environment
  - Knowledge of Africa in Norway is not good, there is not much talk about it, it is not treated as a market
  - Not many success stories
  - Most information about Africa is negative
- About original experience
  - Only from Sweden, no personal experience from Africa other than one month of travelling

- About change in perception
  - Personal experience changed perception a lot
  - South Africa has great potential, quite developed, good hub
  - You have to visit to see, can't just read about it
  - Now views as growth market, people are willing, open minded
  - Perception of Africa is now getting a bit better, due to football WC
- About future plans
  - Exploring further possibilities in SA and looking to expand to Kenya
  - Considering Nigeria, countries in northern Africa

## **Interview 2: With Håkon Harberg, CEO of Vidamo AS**

- General info
  - IT sector, software, mobile solutions, services
  - Started 2006, present in RSA since 2 years back
  - About 7 employees,
- About government support
  - Matchmaking from Innovation Norway, Feasibility study from Norad
  - Government support was not essential to make the investment, it rather was an extra opportunity that was seized
  - Financial help was very small thus not of much importance
  - Opening doors and creating contacts was very helpful as well as getting overview of the market that the firm did not know of
  - Would go there anyway, even without Matchmaking
- About original perception
  - Very big differences between countries in Africa
  - Original knowledge was pretty good due to a longtime friend and business partner from RSA
  - Friend provided him with knowledge that led to viewing South Africa as a market with extremely high potential
  - Local partner with local knowledge and connections was absolutely essential, without it he would not do it
  - Biased positively towards Africa due to having a longtime friend, feeling Africa more interesting due to that than for example India
- About original experience
  - Did not need much international experience due to having local partner running the business in RSA
  - They have technology that can be applied worldwide and local partners deal with the local environment
- About risks
  - They haven't seen bad governance, corruption due to doing small investments and build organizations or their own with local partners, are presented as RSA company with some European players

- Chinese competition is not a problem; it is on different level, facing big firms like Statoil, Yara etc.
- Taking money out of the country is difficult
- About change in perception
  - Has had fairly good perception of SA prior to investing
  - Claims that personal experience changed his perception to even more positive compared to what he was told by people before
  - South Africa has great potential, more than Asia
  - Perception of Africa is now getting a bit better after World Cup
  - Claims who doesn't jump on the opportunity in Africa now will be late
- About future plans
  - First strengthening position in SA and then expanding to other countries in the region

### **Interview 3: With Frithjof Wiese, CEO of Omega SmartBuild East Africa**

- General info
  - Projecting, financing and constructing homes for low and middle class with social aspect such as schools to develop the area
  - Working abroad since 1987 in many countries
  - In Uganda for 8 years, also in Kenya, Tanzania, Rwanda, Etiopia
  - Polish and Ugandan branch offices serve also as Norwegian consulates
  - Deals with governments, bids for projects
- About government support
  - Great support from Norfund, Norad and NHO (financed by Norad), but had to invest still at least 50% himself
  - Matchmaking, opening doors done by NHO
  - Feasibility study – 50% financed by Norad
  - Investment loan from Norfund
  - Opening doors has been essential
  - Financial support has been great, reducing potential losses
- About original perception
  - Good knowledge of Africa, travelled a lot through the whole continent, personal experience
- About original experience
  - Had a lot of experience from other LDC's
  - Developed technology to build affordable houses worldwide
  - Experience with dealing with people during travelling
- About risks
  - Mostly political risk, due to unpredictability inability to plan ahead

- People don't follow contracts if they don't want to, inability to sue them there
- Corruption and bureaucracy management is difficult and that leads to longer expectations of returns
- Chinese competition is so far manageable, Chinese try to copy technology but so far are not as efficient
- Chinese don't have policies against corruption
- Chinese use own equipment, own workers, own food, so they get paid and leave, without any social aspects, local people have not gained anything -> Uganda owes to China
- About change in perception (speaking mostly of Uganda)
  - There is hardly any change in mindsets of Africans, they want everything for free
  - One must possess a product Africans cannot live without to make them pay
  - More afraid now than 8 years ago because of having built houses that due to political actions are hard to sell
  - Knew about corruption, illegal taxation etc. before but expected smaller scale
  - Dealing with government makes business much more difficult compared to dealing with private firms
  - Stay away from big towns, where most criminals, officials are
  - Strong practices against corruption make everything take much longer time, but it is important, otherwise everyone would ask for money
  - South Africa is totally different, much more developed than Uganda
  - Ugandans do not need much to survive, very stable and nice climate, lots of fruits etc. so they are compared to Kenyans much more lazy
  - Kenya has more dealt with Europeans and Arabs in history so more investments go there, Kenyans learned different habits, Ugandans were more isolated
  - Lack of local guarantees holds firms from investing in Uganda
- About future plans
  - Now mostly in Uganda, just signed up big JV in Ethiopia, wants to expand to Sudan, along the river to Uganda
  - Risks are high, business is really tough but opportunities with right products are huge thus it is worth expanding

**Interview 4: With Espen Myhre, responsible for sales in Africa region, T-Vips**

- Removed due to doing only sales in Africa

## **Interview 5: With Terje Gresslien, Director of project development in Jacobsen Electro**

- General info
  - Thermal Energy company from Norway doing mainly business in Africa
  - In Africa since mid 1990's
  - Started with supplying, exporting substations and parts and moved gradually to supplying whole power stations and now also running and owning them
  - Owning a 50 MW heavy oil thermal power plant in Uganda since 2008
  - Also developing projects in other sub-Saharan countries
  - About 80 employees in Oslo
- About government support
  - No support relating investment
  - Heavily using Norwegian guarantees for export credits, this has been essential to success in exporting
  - Support from Innovation Norway and Norad is with few exceptions more for inexperienced and small players
  - Support for feasibility study from Norad is interesting but relatively small cost for firm, but they use it whenever possible
  - Investment loans from Norfund are interesting for future
  - Support for infrastructure could be interesting
  - They develop and supply project, if Norad is supporting it, JE develops project, but loses the supplying due to international bidding, so sometimes the Norad grants end up negative for the firm
- About original perception
  - Seeing big continent with massive deficit of power, substantial market
  - Positive view of great opportunity
  - Risk was viewed as high but manageable
  - Gradual approach in order to reduce risks
  - Relatively low risk because first it was just exporting, projects, not ownership
  - Financing was backed up by guarantee institute
- About original experience
  - Had suitable products
  - Experience in Africa low but following the Nordic way of gradually increasing learning and commitment
- About risks
  - Bureaucracy and inability to make decisions is a biggest issue
  - Corruption is also manageable, precision is crucial
  - Political risk is high but financeable, thus creating niche competence
  - Chinese competition is a problem, they can always somehow get the deal but Chinese are going after bigger projects



- About change in perception
  - A lot of positive development has happened in the region
  - High focus among African countries on transparency
  - Countries more talk to each other and learn, which leads to increased professionalism over time
  - Indecisiveness is a challenge because many institutions are not sure how to make the right, transparent decision not to be criticized, also leaders need consensus before deciding
  - Less one on one negotiating and more competitive bidding
- About future plans
  - To be able to keep competing on technology, execution and reliability
  - Keep good reputation
  - Africa is still main focus, great opportunity, intention to expand
  - Several more project in development

### **Interview 6: With Erling Legran, CEO of Trønder Energi Ltd. and**

- General info
  - Hydro energy company from Norway
  - Constructing power plants, producing, transferring and selling power
  - Started looking for opportunities in 2005
  - Very strong financial situation
  - Found opportunity in Africa
  - Bought partly developed project in Uganda from SN Power together with Norfund
  - Finished the power plant in 2009 and running it since
  - About 500 employees in Trondheim
- About government support
  - Norfund co-invests 27 % in the first power plants
  - Norfund and embassy helpful in opening doors
  - Got support for few feasibility studies
  - Support for infrastructure absolutely essential, couldn't operate plants without power lines in two cases
  - Norfund has been great in backing up the project if it runs into problems
  - 100% without Norfund they wouldn't be there
  - Norfund helped with knowledge in international project financing, also crucial
  - Government support reduced risk and increased the value of the projects due to many grants for infrastructure etc.
  - Another crucial thing is export guarantees and insurance from political issues by MIGA (World Bank)
- About original perception
  - Looking at Africa as a land of opportunities
  - They had reports from Norwegian Hydropower project stating biggest opportunities are there

- Risk was viewed as very high but manageable
- Had few managers that have been there before so it was not completely new
- About original experience
  - Had suitable products, technology
  - Had one top manager with lot of experience from Tanzania whose knowledge was crucial
  - Experience with project financing low but Norfund helped with that as co-investor
  - Norfund had a lot of experience
- About risks
  - Still highest is probably political risk, even though they have insurance making it bearable
  - Inability to pay – Uganda spends money for elections etc. and then don't have enough left to pay bills
  - Political risk is high but financeable, thus creating niche competence
  - Africans ask for too low prices because they feel risk much differently and they don't realize that they can't get as low prices as in Asia where competition is much higher
  - Chinese are used as contractors to build plants, competition is welcomed there to lower prices
  - Chinese go after bigger projects
- About change in perception
  - Opportunity is huge, great demand outlook
  - They have not encountered anything that would really scare them off
  - So it is more the other way around, now when it works they have a lot more positive perception
  - People in Western world have often perception of Africa as wars and poverty because that's what is on TV all the time.
  - Personal perception of the CEO got better, he thought after visiting that it looks better, more developed than expected
  - Visiting the place is necessary to get the right picture
  - Return on investment is great and it will stay for a while
  - The more time you spend down there, the more you view this as a great opportunity
  - Had some skeptical people at the firm but when they travelled to Uganda, saw the running project and numbers, they turned more optimistic
- About future plans
  - Close to an investment decision on two more green field projects in Uganda
  - Planning acquisition of some more projects in Uganda
  - So far Uganda is big enough to expand, reviewing projects in few other countries
  - Mitigating risk is possible therefore worthwhile investing
  - Want to build a strong base in Uganda

## Interview 7: With Tony Haugen, Project Manager in Kongsberg Seatex

- General info
  - Project research and project delivery in especially infrastructure
  - Started with Matchmaking in late 2010 regarding sea and environmental surveillance, oil recovery project
  - Now in the process still, not sure how far they are now
  - Except that owning a company in SA, which is also doing some infrastructure work in Mozambique and Tanzania, Comoros, Madagascar funded by World Bank
  - They don't develop projects, they are bidding on projects worldwide, if they believe they can do it
  - About 100 employees in Trondheim
- About government support
  - Sea and environmental surveillance, oil recovery project financed by Norad
  - Matchmaking from Innovation Norway, Norad project is interesting but with the infrastructure projects they have been on the track anyway
  - The Matchmaking program was where they first dealt with the government, before nothing
  - Matchmaking is great for opening doors now
  - Government support helps but it is not essential, would do business there anyway
  - Would more appreciate government support in other African countries, SA is fairly easy to do business in
- About original perception
  - Original knowledge of South Africa was pretty good due to visiting Africa from childhood
  - Felt that SA was really easy to do business in compared to for example Vietnam, where they also do matchmaking
- About original experience
  - Have gained experience in South Africa while living there
  - They have technology that can be applied worldwide
- About risks
  - Lack of infrastructure, not enough knowledge
  - Make sure to have proper funding, letter of credits etc.
  - Corruption poses a problem when competing against Chinese or others with no policies
  - They try to have a local partner always to deal with bureaucracy etc.
  - For example doing business in Vietnam is much more difficult and risky than in SA. Much bigger barriers.
- About change in perception
  - Has had fairly good perception of SA prior to investing
  - Has very good experience during the time, thus keeping the positive perception
- About future plans

- They will try to increase their presence in Africa even though for example corruption makes it quite difficult, because there are so many opportunities.
- With more findings of oil and gas more opportunities come
- Opportunities are definitely **overwhelming** in contrast to all the risks, the firm must just learn to deal with it, at least in SA

## Consultants

### **Interview 1: With Torstein Wold, BMMP**

- General info
  - 2,5 years in BMMP
  - Interested in international business development
  - Has lived and done business in RSA for several years
  - Involved in putting up telecommunication firms like Telenor in Norway
  - In 2002 moved to RSA to do the same there
  - Has dealt with 8-9 firms so far
  - Also runs a Navigator program, that prepares firms for BMMP, has dealt with 15 of them so far
- About what he does in BMMP
  - First screening, who is suitable for the program
  - Meets management, tries to pin point opportunities and challenges
  - Discussion and advisory help etc.
  - Biggest challenge is to update managers, make them aware of opportunities
  - Minimize risk for firms, they don't invest much
- About perception of firms
  - In many cases regard Africa as one country, not realizing the differences
  - Firms are not updated, think of wars, crimes 20 years ago
  - Are aware of wars, hungry children, aids etc.
  - Most have never considered Africa for business
  - Visit and other investigation usually changes perception to much more positive
  - When managers realize RSA is a big growing market they say "why not" – takes a while
  - Overall, not really negative perception but more wrong in terms of not knowing the opportunities
  - Firms think Scandinavia, Europe, and then Asia, not USA because many firms have failed there
  - View Africa as far away
  - Original perception changes due to learning etc. a lot until final decision is made so in the original form does not affect the final decision
- About risks

- Corruption is much worse in Vietnam than in RSA
- Bureaucracy much worse in Spain than in RSA, some issues with getting money out of the country
- Political risk in RSA, some are concerned what happens when Mandela leaves
- Market is not limited and firms realize it, when they seek for info
- Lack of educated manpower is main concern, mindset of Africans is different
- About opportunities
  - In 2002 first license in mobile telecommunications, today mobile saturation 100%, but while in Western Europe almost everybody have smartphone, in RSA less than 10% now, in 3-4 years everyone will have there smartphone as well, so firms can benefit from services related to that, huge chance
  - In sectors like telecommunications. Banking, healthcare etc. big chances

## **Interview 2: With Hans Talleraas, BMMP**

- General info
  - About 9 years in BMMP
  - Main consultant, competence whole Norway
  - Spent several years in RSA
  - Has dealt with about 80 firms so far
- About what he does in BMMP
  - First screening, who is suitable for the program
  - Calls firms and ask if they know BMMP
  - Takes about 3 months from first contact until firms travel to RSA
  - Priorities in Oil and Gas, Sea watch, Oil spill and Food and beverage, ICT
  - Discussion and advisory help etc.
  - Only contact firms with international background
  - Insists on visit of managers in Africa
  - Must have experience himself to sell Africa, the educational work is important
  - BMMP is more to open doors than influence directly decision, follow up is important
  - 99% of firms are happy with the work Innovation Norway does in RSA
  - Network that INN has in RSA is important
  - Opening doors is most important
  - The purpose with RSA is not to develop it nowadays but to present it as a hub to the rest of Africa
- About perception of firms
  - In many cases regard Africa as one country, not realizing the differences
  - Knowledge of market is very low, they have no idea what they can do in RSA

- 90% have not had any focus on Africa, most seem surprised when we call them
- In last 9 years not any development in terms of perception of approached firms that have not been in Africa yet
- Most have never considered Africa for business
- Visit and other investigation usually changes perception to much more positive, most important factor is visit, they get good assistance in RSA from Innovation Norway
- Lack of knowledge is the biggest reason for firms not investing
- View Africa as far away
- Original perception changes due to learning etc. a lot until final decision is made so in the original form does not affect the final decision
- They think that surprises firms most in positive way is the people they meet
- Firms are not better informed than years ago
- About risks
  - Everything takes more time
  - Haven't met any kind of corruption in the BMMP for 9 years
  - The biggest risk is probably the distance, you can't travel there every month
- About opportunities
  - RSA partners have good knowledge of Africa, great chance to spread to other countries

## The preliminary report

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Supervisor: Carl Arthur Solberg

BI Norwegian School of Management -  
Preliminary Thesis Report

**- Why are Norwegian  
firms so reluctant to invest  
in Africa? -**

Hand-in date:

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**GRA 19003 Preliminary Thesis**

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Master of Science in International Management

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## Introduction

Throughout some of our courses we have learned about countries that have significantly managed to improve their economies, living standards and wealth over the last decade, and thus shrinking the gap between them and the developed countries from North America, Europe or Asia, which have grown in much slower pace. The main focus was on BRIC countries: Brazil, Russia, India and particularly China, which have been exceptionally successful with their GDP growth and their roles in world economy have increased (Pelle 2007). While BRIC countries, together with some other South American, South African and Asian countries, are the main targets for international investments at the moment, and the developed world is stagnating or developing slowly, there are still many countries that are very poor at present despite some of them showing good progress, offering great possibilities for firms, particularly in Africa (Prahalad 2006, McKinsey Global Institute 2010).

Moreover, since the strong growth in emerging countries stated above is limited and will slow down as living standard improves, wages rise and markets become more mature, it is reasonable to expect that investors will look for another under developed area, where they could profit on low wages and markets in early stages, which may be for example in Africa.

During the last decade, Africa has received rapidly rising numbers of investments, particularly from developing world such as China, Brazil or Russia, while the developed countries including Norway sit back and do not fully make use of what appears to be great potential (Norwegian Agency for Development Cooperation 2010). Furthermore, Norway is one of the countries that have lots of funds to invest and its resistance to recent economic crisis is relatively high (Finansdepartementet 2011<sup>25</sup>). The purpose of this thesis will therefore be to investigate why Norwegian firms are so reluctant when it comes to investing in Africa.

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<sup>25</sup> Regjeringen.no, Concluding statement of the IMF mission, Retrieved 11.1.2012

Due to the size of the continent and big differences among its countries, the focus of this research will be on Sub-Saharan Africa, more precisely on all or some of the SADC members, which are Angola, Botswana, Democratic Republic of Congo (DRC), Lesotho, Madagascar, Malawi, Mauritius, Mozambique, Namibia, Seychelles, South Africa, Swaziland, United Republic of Tanzania, Zambia and Zimbabwe.

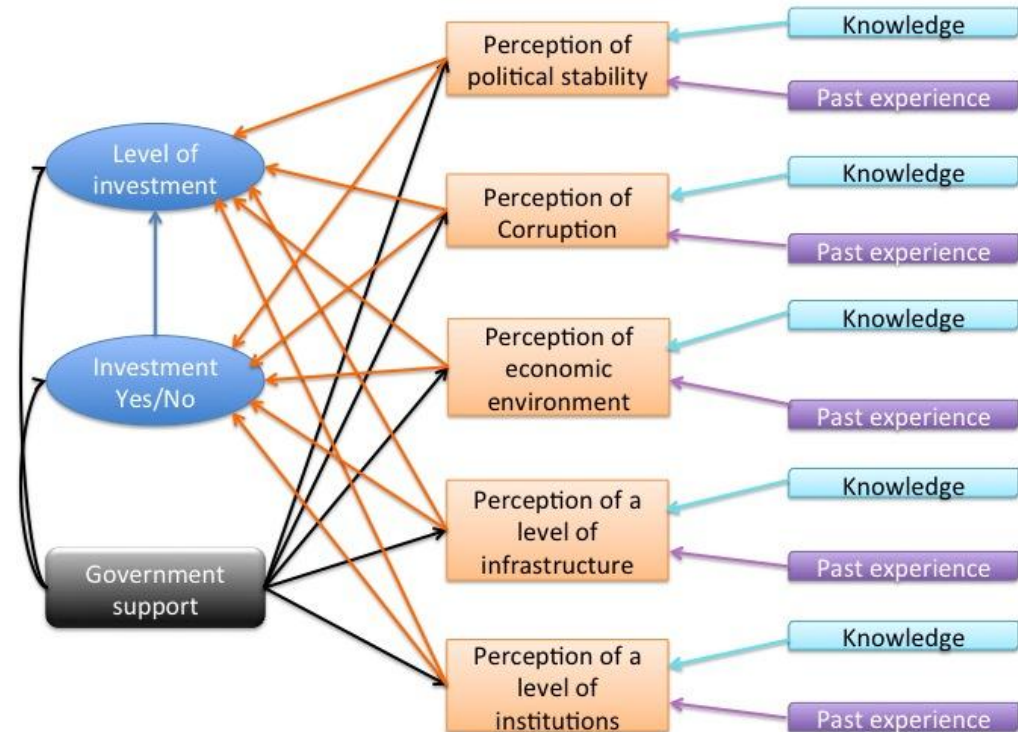
In the following paper the author will present the model with basic hypotheses, followed by a literature review, which the thesis will be based on, and finally by introducing briefly the expected methodology. Moreover, all the information this paper is preliminary, therefore changes can be expected towards the actual thesis.

## **Model and hypotheses**

First of all, to be able to conduct such research, several assumptions must be made. The author therefore assumes that all firms asked dispose of enough money to be able to make the investment. Moreover, they also have enough experience from international operations. Furthermore, there are opportunities for all the firms, all managers/firms have knowledge of Africa from the past, but necessarily from today and finally, the last assumption is that firm would undertake the investment if they view it positively.

The model (see figure 1) then consists of both dependent and independent variables.

Figure 1:



The model is created based on several constructs. Please note that the model and the hypotheses are yet to be developed further. The main idea of this research is that perceptions of owners and/or managers of Norwegian firms about political stability, corruption, economic environment, level of infrastructure and level of institutions have significant influence on investment decisions of such firms, i.e. whether firms invest and if yes, then how much. Since not many Norwegian firms are involved in doing business in Africa, the first proposition is:

Hypothesis 1a: Bad perception of political stability will have a negative impact on whether firms invest or not.

Hypothesis 2a: Bad perception of political stability will have a negative impact on how much firms invest.

Hypothesis 1b: Bad perception of corruption will have a negative impact on whether firms invest or not.

Hypothesis 2b: Bad perception of corruption will have a negative impact on how much firms invest.

Hypothesis 1c: Bad perception of economic environment will have a negative impact on whether firms invest or not.

Hypothesis 2c: Bad perception of economic environment will have a negative impact on how much firms invest.

Hypothesis 1d: Bad perception of level of infrastructure will have a negative impact on whether firms invest or not.

Hypothesis 2d: Bad perception of level of infrastructure will have a negative impact on how much firms invest.

Hypothesis 1e: Bad perception of level of institutions will have a negative impact on whether firms invest or not.

Hypothesis 2e: Bad perception of level of institutions will have a negative impact on how much firms invest.

Furthermore, the author believes that the perceptions managers of the firms have are based on two main constructs. Firstly, it is their knowledge they have learnt either during their academic studies, by studying literature or from various other sources. Since Africa has had a bad reputation for many reasons in the history such as wars, bad leadership, poverty etc. and a significant improvement in some countries has been made in just several recent years, the author assumes that there are very most managers who have a good picture of some African countries some five to ten years ago, but not necessarily latest information. Thus, based on this assumption, it is reasonable to believe that bad knowledge, in this sense lack of up-to-date information, will lead to bad perception. The following hypotheses can be then created based on this information.

Hypothesis 3a: Bad knowledge of political stability will lead to bad perception of political stability.

Hypothesis 3b: Bad knowledge of corruption will lead to bad perception of corruption.

Hypothesis 3c: Bad knowledge of economic environment will lead to bad perception of economic environment.

Hypothesis 3d: Bad knowledge of level of infrastructure will lead to bad perception of level of infrastructure.

Hypothesis 3e: Bad knowledge of level of institutions will lead to bad perception of level of institutions.

And secondly, the other construct is their experience from the past. In this case it is reasonable to assume that bad experience will have strongly negative impact on perception and thus the investment decision and at the same time, a good experience would have a positive influence on perception. However, there should be a distinction between a recent experience and an old, at least five or ten years old experience. While a recent experience would have most likely very strong impact on perception, an older experience may have considerably weaker influence on perception. At the same time though, it is possible that firm, which has very negative ten years old experience from Africa may not be interested in getting newer information because there is low belief that things could change that fast and the firm may want to have nothing to do with Africa again. In this case, the perception could be far from reality and therefore may cause a wrong investment decision. Since the author tries to examine why Norwegian firms do not invest much in Africa, the following hypotheses can be made.

Hypothesis 4a: Bad experience with political stability will lead to bad perception of political stability.

Hypothesis 4b: Bad experience with corruption will lead to bad perception of corruption.

Hypothesis 4c: Bad experience with economic environment will lead to bad perception of economic environment.

Hypothesis 4d: Bad experience with level of infrastructure will lead to bad perception of level of infrastructure.

Hypothesis 4e: Bad experience with level of institutions will lead to bad perception of level of institutions.

Additionally, the firm's decision whether to invest or not, eventually how much, may be influenced by government support. Just like China promotes their exporters and firms to invest in Africa, similar help may encourage Norwegian firms as well. Except this, the government support may also have influence at least at some of the perceptions as Norwegian firms may think more positively of African countries if they see that Norwegian government is trying to encourage the investments. Therefore there are several more hypotheses to be made.

Hypothesis 5a: Government support will have positive impact on whether firms invest or not.

Hypothesis 5b: Government support will have positive impact on how much firms invest.

Hypothesis 6a: Government support will have positive impact on perception of political stability.

Hypothesis 6b: Government support will have positive impact on perception of corruption.

Hypothesis 6b: Government support will have positive impact on perception of economic environment.

Hypothesis 6b: Government support will have positive impact on perception of level of infrastructure.

Hypothesis 6b: Government support will have positive impact on level of institutions.

## **Implications**

If the author manages to find support for the hypotheses stated above, there may be implications for three main groups. Firstly, if the research shows that Norwegian firms have bad perception of Africa, then the results may help them to rethink their approach and possibly take the opportunity.

Secondly, if the research shows that bad knowledge of managers is a main cause of bad perception and that causes the reluctance in investment decisions, there may be

implications for academic institutions, which could possibly put more emphasis on the topic during the studies.

And finally, if the research implies that there is a bad knowledge of Africa in the eyes of Norwegian managers, it may be helpful to African institution, which could realize more promotion should be done to attract investments.

## Literature review

There are several areas of literature that play an important role in conducting the proposed research. First of all, the author will briefly introduce Africa as a continent (a detailed background of specific countries will be present in the final document, since the countries are yet to be discussed). Second of all, due to the topic being closely related to internationalization process of a firm, the author would like to briefly introduce the Internationalization theory. Additionally, a short introduction of portfolio investments will be provided, followed by a background of theories regarding perceptions, knowledge and past experience. Finally, a background of export promotion literature will take place.

## Africa today

Generally speaking, African continent consists of 54 countries and few disputed territories, with the total size of about 30,330,000 km<sup>2</sup>, which ranks Africa as second biggest continent. The total population is just over 1 billion, from which about 41,2 percent are economically active<sup>26</sup>. The land profile includes all conditions from deserts to rain forests, plains to mountains, and savannas to swamps. Africa is very rich on raw materials; every country has some in its territory. For example we could mention diamonds, gold, silver, zinc, phosphates, oil, natural gas, petroleum or uranium<sup>27</sup>. And thanks to its landscape and long historical isolation from other continents, Africa disposes of unique flora and fauna not to be found anywhere else on the planet.

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<sup>26</sup>Uneca.org. African Statistical Yearbook 2010 [Retrieved 12.12.2011](#)

<sup>27</sup> Cia.gov. Africa. [Retrieved 12.12.2011](#)

Although Egypt, Morocco and South Africa are considered to be emerging economies already and Nigeria is predicted by Goldman Sachs as one of the “next 11”<sup>28</sup>, majority of the continent is very poor and people in many countries depend on humanitarian aid from the rest of the world. In 2009, total net official development assistance from members of the OECD’s Development Assistance Committee to \$119,6 billion<sup>29</sup>.

In many countries, human rights are often ignored, which one can see from the number of working children or long working hours (Kielland and Tovo 2006, Edmonds 2004). Human trafficking, illegal business with human organs or famine is still present in some areas (Adepoju 2005). Especially middle and southern part of Africa have a huge problem with AIDS (Kalipeni, Craddock, Oppong and Ghosh 2004) and many people still die of malaria. Furthermore, literacy is generally low, even though there have been some tremendous efforts to get kids to school in some countries. Finally, there have also been many local wars in Africa, with hundreds of thousands people dead, for example in Sierra Leone, Rwanda or Sudan. Another most recent one is from Lybia, where there was a civil war as part of the Arab spring<sup>30</sup>, or Nigeria, where radical Islamic groups murder Christians<sup>31</sup>.

With so many issues one could say it is hard to even consider Africa as a continent that will rapidly grow one day. Due to never ending wars, The Economist even called Africa “The hopeless continent” back in 2000<sup>32</sup>.

However, a decade later, they regret that call and issue a new volume called “The hopeful continent - Africa rising”<sup>33</sup>. Why? According to The Economist, lots have changed since 2000. One of the worlds biggest markets with different goods is now in Nigeria, there are more highly motivated entrepreneurs and richer consumers. During the last decade six of the world’s ten fastest-growing countries came from Africa and Africa has grown faster than East Asia in eight of the previous ten years. Additionally, IMF expects Africa to grow by 6% in 2011 plus almost 6% the following year, which comparable to Asia.

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<sup>28</sup> www2.goldmansachs.com. The next 11. Retrieved 13.1.2012

<sup>29</sup> Oecd.org. Development aid rose in 2009... Retrieved 12.12.2011

<sup>30</sup> Economist.com. Arab Spring. Retrieved 12.12.2011

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And The Economist adds, that commodities boom is partially responsible for this, since Africans got higher revenues for selling commodities, for example oil, copper and gold. Furthermore, big part of the growth also came from manufacturing and service economies that African countries have been developing. China has been a pioneer with long term FDI to Africa, followed by Brazil, Turkey, Malaysia and India. In the last decade, FDI inflows rose ten times. Africa has also over 600 million phone users, which is rather surprising but positive. Thanks to the international help, the health of people is also improving. Africa has now better-educated young people and declining birth rate, the number of economically active people should peak in 30 years from now, which is very promising for future growth<sup>34</sup>.

Since Africa is a continent of many very different countries, which should be considered separately, but at the same time it has not been decided exactly on which countries the main focus will be. A more detailed introduction with appropriate literature will be provided in the thesis.

### **The Internationalization theory**

The Internationalization theory, also known as the Uppsala model, was formulated by Johanson and Vahlne (1977, 1990). It refers to the internationalization of a firm as a process of experiential learning followed by increasing commitment that eventually lead to an evolutionary development in foreign market. In other words, by operating in a country, the firm increases its market knowledge, which in turn results in more commitment in that country (Johanson and Vahlne 1977).

An important concept defined in the Uppsala model is psychic distance, which consists of factors that have a serious influence on information exchange between firm and the host country. These factors are related to difference in language, culture, political system, level of education, level of industrial development etc. (Johanson and Wiedersheim-Paul, 1975). Hence, according to the Uppsala internationalization model, firms tend to start their foreign operations in countries with low psychic distance and afterwards progress to countries with greater psychic distance.

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<sup>34</sup> Economist.com. The hopeful continent – Africa rising. [Retrieved 12.12.2011](#)

According to the Uppsala model, companies usually start with low commitment mode requiring low market knowledge, e.g. exporting. When they learn more about the market, the next step can involve direct export and establishing own sales office followed by warehouse facilities in the foreign country. This often leads to establishing a wholly owned subsidiary to become a true multinational player (Johanson and Vahlne 1990). Some authors, for example Oviatt and McDougall (1997, 1999) and Forsgren and Hagström (2007), however challenge the applicability of this dynamic process to new types of businesses such as internet-based firms. Others, such as Andersen (1993) criticize lack of explanatory power of the model.

In 2009, the Uppsala internationalization process model was revisited due to progress in business practices and theoretical advances since 1977. At the moment, the market is considered more as a web of relationships, a network, as opposed to just many independent suppliers and customers. The psychic distance concept has been replaced with Outsidership, which, with regards to the relevant network, is the main source of uncertainty. The lack of knowledge can be therefore supplemented by being a part of a network (Johanson and Vahlne 2009).

### **Foreign direct and portfolio investments**

Since two of the important variables in the model are whether to invest or not and the eventual level of investment, which may well be a part of a bigger portfolio, the author would like to briefly introduce what Foreign direct investment (FDI) and portfolio investment are.

The most common definition of FDI, used by for example World Bank<sup>35</sup> or Organisation for Economic Co-operation and Development (OECD)<sup>36</sup>, says that FDI is any cross border investment acquiring at least 10% of the shares, with the purpose of gaining control in the investment subject, not only financial profit. The stake of 10 percent can be very high in some cases giving high control but it can also give very limited control.

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<sup>35</sup> data.worldbank.com. Foreign direct investment. Retrieved 13.1.2012

<sup>36</sup> [www.oecd.org](http://www.oecd.org). OECD benchmark definition of FDI. Retrieved 13.1.2012

Portfolio investment has many definitions but generally, as proposed by OECD<sup>37</sup>, includes different types of equity or debt securities investments that are made in order to gain financial profit.

## Perception

According to Pomeranz (2006) or Goldstein (2010) perception can be described as a process in our brain that organizes and interprets information collected by our sensory receptors. The processing can be in either bottom-up, or top-down direction. The bottom-up processing begins with basic information units that serve as foundation for recognition. Top-down processes begin at the top, because they are guided by knowledge, expectations (Bernstein 2010).

As such, according to Pomeranz (2006), this process has several limitations; some of them will be presented. Firstly, perception is limited. That means it is impossible for a human to get a one hundred percent, full picture or opinion on some subject due to huge amount of information. Secondly, perception is selective, which indicates that our “picture” is narrowed down even more by focusing our attention to some object only while neglecting important information in the background. Furthermore, our perception we create for the first time is relatively resistant towards changes in the environment, for example if a manager encounters corruption and creates his/her perception about the corruption in the country, he or she may ignore small changes in corruption while preserving the original perception. Moreover, perception is not accurate; there can be different illusions (e.g. optical), which can alter the way we perceive things. And finally, perception is influenced by a context. For example if a manager from country such as Norway, where level of corruption is very low, travels to Africa, corruption there may appear to him much worse than to someone from Middle East, where such practices are common as well.

According to Gregory (2004), perception does not only passively receive various signals, but can be also affected by learning, memory and expectation. This is important background information for the proposed model, which believes that lack of up-to-date learning (bad knowledge) leave old perception that is far from reality,

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<sup>37</sup> stats.oecd.org. Portfolio investment. Retrieved 13.1.2012

thus causing wrong managerial decision. And moreover memory, for example bad past experience also shapes perception negatively.

### **Government support**

In this section there are two different kinds of support the author would like to present. One of them is investment promotion and the other is export promotion. In the actual thesis, one of them or both will need to be explained, depending on what kind of firms will be chosen for the research and how the research will be constructed.

According to Charlton and Davis (2007) there are three main types of investment promotion. Firstly, the country that needs to attract investments can disseminate information about local conditions. Secondly, the country can coordinate foreign and domestic business activities, for example linking firms with suppliers, etc. Finally, likely the most important way to promote investments is to either affect profitability of the investments directly via numerous fiscal or financial incentives, such as tax breaks, training subsidies, accelerated depreciation allowance or grants, or by lowering the cost of establishments for firms, such as assistance with finding right site, etc.

There has been considerable research on how investment promotion affects the investment volumes, for example Charlton and Davis (2007), who found very strong positive relationship between investment promotion and volume of FDI. Moreover Coughlin, Terza and Arromdee (1991) or Bartik (1985) found a negative impact of high taxes on investment. There have been also attempts to link other kinds of promotion with level of investment, such as for example Head, Keith, Ries and Swenson (1999) but as Charlton and Davis (2007) say, non-financial and non-fiscal types of promotion are more difficult to measure.

Cavusgil and Czinkota (1990) say that there is a significant role of government when it comes to stimulating international business activity of domestic companies using export promotion. Furthermore, there have been also numerous studies trying to answer if export promotion actually works, for example Wilkinson, Keillor and d'Amico (2005); Leonidou, Palihawadana and Theodosiou (2011); Coughlin and

Cartwright (1987); Shamsuddoha, Ali and Ndubishi (2009) or Martincus and Carballo (2010). They all find support for the positive relationship between export promotion and the export performance. Some authors also tried to investigate in which cases export promotion does not improve the export performance, such as Ghani (2006), who examined crowding-out effect on exports. Ghani (2006) proposed that if all developing countries promote export, they will even out each other's advantage, therefore there would be no effect on export performance. Instead, his research showed that developing countries are crowding out exports from Western European countries. So the conclusion was actually in line with the previous mentioned authors, the export promotion did have positive effect on export performance of developing countries.

## **Methodology**

Although this has not been decided yet the author expects to use personal interviews with Norwegian companies that operate abroad in order to get a better response rate.

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