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FDI location characteristics of MNEs location decisions in the Ghanaian banking sector.

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Abstract

Foreign Direct Investment (FDI) is a significant source of capital for economic growth in developing countries. The increasing financial links across countries, especially between industrial and developing countries have been associated with the liberalization of international financial markets. Moreover, globalization in production, due to technological innovations in communications and transport coupled with better policies in developing countries, are often considered to be the primary forces that drove globalization and foreign direct investment in the 1990s and recent times.

The literature on FDI can be categorised into three main groups: the first group investigates the effect of FDI on macroeconomic indicators, such as economic growth, exchange rate, rate of inflation, balance of payments, and rate of unemployment. The second group examines the impact of FDI on different factors such as technology transfer to recipient countries, management practices by national firms, and labour skill and productivities in hosting countries. The third group focuses on the characteristics of FDI and the driving forces for its inflows and outflows to different countries. This research focuses on the latter strand thereby enabling an investigation of the location characteristics of MNEs location decision in the banking sector.

The main aim of this thesis is to examine and analyse FDI location characteristics in the Ghanaian banking sector. This has been achieved by making use of both qualitative and quantitative data series' to ascertain whether the major location factors are the characteristics/ determinants of MNEs location decision in relation to a specific

industry (banking) and a specific country (Ghana). Using a multi-method approach, the findings of this thesis reveal that political and legal factors are very significant, followed by macroeconomic policy factors and infrastructure factors. Market factors and labour market factors which have been found in previous studies (Lall 2001; Asiedu; 2003; Dunning 2004; Helpman; 2006 and Felbermayr *et al.* 2011) to be important determinants of FDI inflows have been found in this thesis to be the least important factors for MNEs' location decision in relation to FDI inflows to Ghana.

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Abbreviations

ADB	Agricultural Development Bank
BMI	Business Monitor
BOG	Bank of Ghana
CEEC	Central and East European Countries
CEMAC	Communauté Economique et Monétaire de L'Afrique Centrale
CEO	Chief Executive Officer
COMESA	Common Market for Eastern and Southern Africa
EAC	East African Community
ECOWAS	Economic Community of West African States
ERP	Economic Recovery Programme
EU	European Union
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GEPC	Ghana Export Promotion Council
GH	Ghana
GHC	Ghana Cedis

GIPC	Ghana Investment Promotion Council
GNP	Gross National Product
GSE	Ghana Stock Exchange
IBRD	International Bank for Reconstruction and Development
IGAD	Inter-Governmental Authority on Development
IMF	International Monetary Fund
IOC	Indian Ocean Commission
ISA	Internationalization Specific Advantage
ISSER	Institute of Statistical, Social and Economic Research
IT	Information Technology
LDC	Least Developed Country
LSA	Location Specific Advantage
MD	Managing Director
MM	Millions
MNCs	Multinational Corporations
MNEs	Multinational Enterprises
MOFEP	Ministry of Finance and Economic Planning
MOTI	Ministry of Trade and Industry
NEPAD	New Partnership for African Development
OCED	Organisation for Co-operation and Economic Development
OLI	Ownership Location and Internalization

OSA	Ownership Specific Advantage
PhD	Doctor of Philosophy
PLC	Public Limited Liability
PNDC	Provisional National Defensive Council
SADC	Southern African Development Community
SADU	Southern African Customs Union
SAP	Structural Adjustment Programme
SSA	Sub Saharan Africa
SSAC	Sub Saharan Africa Country
SSNIT	Social Security and National Insurance Trust
SWOT	Strengths Weakness Opportunities and Threats
UK	United Kingdom
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
US	United States
USA	United States of America
WAEMU	West African Economic and Monetary Union
WTO	World Trade Organization

Chapter 1: Introduction

1.0 Introduction

This chapter introduces the main body of the research including research background, research rationale and research aim and objectives. It also provides a section on chapter structure and a concise summary.

1.1 Research background

Foreign Direct Investment (FDI) is a significant source of capital for economic growth in developing countries. It provides a package of benefits to a host country including technology transfer, management techniques, finance and market access for the production of goods and services. The recent economic downturn highlights the importance of developing a competitiveness-supporting economic environment that is based on productivity enhancements in order to better enable national economies to weather unexpected shocks and ensure solid, long-term economic performance. FDI therefore contributes considerably to raising total factor productivity in host countries and helps improve their overall rate of economic growth. According to Fry (1993); Stiglitz (1994); Büthe and Milner (2008), United Nations Conference on Trade and Development [UNCTAD] (2011) and Mmieh, Owusu-Frimpong and Mordi (2012) the rationale for the focus of attention on the attraction of FDI inflows into the financial sector is that it plays an important role in the long term economic development of country. A well-functioning financial and banking system is undoubtedly one of the most important developmental

drivers of economic growth in a country. This is even more significant for the economies that have adopted the International Monetary Fund (IMF) and the World Bank assisted Structural Adjustment Programmes (SAPs) aimed at reversing many years of economic decline and eventually promoting economic growth through enhanced trade liberalization (Mmieh and Frimpong, 2004).

Financial deregulation, developments in telecommunication and IT technology and globalization of capital markets are necessary criteria which have encouraged FDI inflows in the banking sector in recent years (Moshirian, 2008). Ghana considers the attraction of increased levels of foreign direct investment as one of the major economic goals for sustained economic growth. Hence, this research examines and analyses the FDI location characteristics of MNEs location decisions in the Ghanaian banking sector.

1.2 Research rationale

A brief explanation is provided for the reason why this particular topic was chosen as a subject of study. Before starting the PhD studies, the researcher spent nine years working as a senior relationship manager for Barclays Bank PLC. Prior to that, the researcher had undertaken numerous roles working in different management roles within the bank. During the nine years, the researcher witnessed considerable organizational change, including the implementation and later abandonment of internal reforms in line with market expectations. The researcher was also fortunate to witness a series of major expansion programmes across the world. Over a short period of time there were increasing numbers of bank branches opened in Ghana, with a greater

scope of foreign involvement. Although, several of the leading banks (such as Barclays Bank Ghana Limited, Standard Chartered Bank Ghana Limited, and Ecobank Ghana Limited) are already foreign owned, to satisfy the researcher's own curiosity, Business Monitor Information [BMI] (2009) was consulted, which stated that in March 2009 there were 642 branches, up by 32.1% year on year from 486 in the 12 months previously. Similarly, Ghana's economic reform agenda received a considerable amount of scholarly attention, however, little research focused on investigating how the private sector and post reform institutions such as banks have served in attracting FDI inflows into the Ghanaian economy. The expansion of the economy as well as an increase in foreign banks entry in the Ghanaian banking sector aroused the interest of the researcher to pursue a research in this all-important area.

1.3 Research aim and objectives

The main aim of this thesis is to examine FDI location characteristics contributing to the location decision of MNEs in the Ghanaian banking sector. Specifically, the objectives are to;

- Investigate Financial MNEs decision to locate in the Ghanaian banking sector in relation to FDI location characteristics.
- Assess the effect of Financial MNEs' activities in the Ghanaian banking sector.
- Use the findings of this research to inform Ghanaian policy-makers in order to improve and consolidate on the government's policy on FDI.

The aim and objectives have been achieved by making use of the evidence available from the required data collected.

Location characteristics can be reviewed and categorized in a variety of ways, as cited in Oh (2001) (Lee and Franz, 1979; Epping, 1982; Sule, 1994; Evans, *et al*. 1990; Nahmias, 1993; Hoffman and Schniederjans, 1994; Barkley and McNamara, 1994; Burnham, 1994; Badri, *et al*. 1995; Chase and Aquilano, 1995; Dilworth, 1996; Badri, 1996; Russell and Taylor, 1998; Dorneir, *et al*. 1998; Badri, 1999). A detailed review of the literature enabled the identification of a fully comprehensive set of factors and sub-factors that are potentially relevant to international location decisions. Following Atthirawong and MacCarthy (2003) the question below was adopted in this study to ascertain whether, in the case of Ghana, the location factors are the characteristics of banks' FDI location decisions. Given that Atthirawong and MacCarthy (2003) focused on the motivations for firms seeking to manufacture across national frontiers, this research focuses on the banking industry.

The aim and objectives of this research are supported by the following research question.

Q1: What is the level of significance of FDI location factors in the banking sector in Ghana?

The primary objective of Q1 is to explore the significance of FDI location factors in the Ghanaian banking sector.

The literature on the factors influencing international location decision has been investigated in detail by the following authors Atthirawong and MacCarthy (2003), Lin and Kwan (2011) and Kedia *et al.* (2012).

Jungthirapanich and Benjamin (1995) provide a chronological summary of research undertaken between 1875 and 1990 on general industrial location revealing that, frequently, in the past, a limited number of quantitative factors such as transportation and labour costs were considered when firms made location decisions. But in more recent times an increasingly wide range of both qualitative and quantitative factors have been explored by (MacCarthy and Atthirawong, 2003). Costs are a major consideration in many international location decisions and there may be trade-offs between different types of costs. Qualitative issues such as social and political factors are also influential in many international location decisions. A survey conducted by Badri, *et al*. (1995) indicate that global competition and economic-related factors are more notable than conventional location factors such as transportation costs and climate when firms decide to do business abroad. A number of factors such as financial incentives and tax structure may be influenced or controlled by host governments and such factors will vary from country to country. The importance of the various factors may change significantly over time (Epping, 1982).

1.4 Structure of thesis

The remaining section of this chapter deals with the chronological order of the thesis. Overall, the thesis consists of seven chapters. Chapter 1 includes the research background, the research rationale, research aim and objectives, structure of the thesis and chapter structure.

Chapter 2 includes a review of the extant literature on FDI, which provides the theoretical perspective, tracing the historical understanding of FDI up to 2012 in respect of the Global, Africa, sub-Saharan Africa (SSA) and Ghana flows. This chapter also contains the explanation of FDI, location theories and FDI location characteristics.

Chapter 3 provides the background information which includes historical development of the Ghanaian economy, the socio-political outlook of Ghana, economic development and policy between 1950–1980, adoption of economic policy, giving reasons under the economic recovery programme (ERP) and structural adjustment programmes (SAPs), investment climate in the SSA region (particularly Ghana), FDI trends with respect to the global situation, Africa, SSA and Ghana in the last 10 years and the literature on banking.

Chapter 4 presents the conceptual framework. This chapter by way of summary draws on both the literature on FDI and the background chapters to develop arguments and propose relationship between the independent (location variables) and the dependent factors (decision to

undertake FDI or not). In order to answer the research question hypothesis are formulated to answer the research question.

Chapter 5 presents the methodological framework looking at different research methods relating to this research and also the data set. In this chapter the thesis provides detailed information on how the research questions were also designed and how they were expected to address the issues of meeting the research objectives of the thesis.

Chapter 6 presents the core of the thesis and assess the data analysis – empirical evidence for this research. The first part identifies the banks used for the research, in terms of their key characteristics, including national origins and ownership. The second part provides evidence for the level of significance of FDI location factors in the banking sector in Ghana. The findings have been discussed and interpreted in line with the theoretical arguments expressed in previous chapters.

Chapter 7, the concluding chapter, includes the discussion and conclusions, which includes contribution to literature and methodological contribution, theoretical implication, practical implication and future area of research and research limitation.

1.5 Summary

The scene is set to examine the FDI location characteristics of MNEs location decisions in the Ghanaian banking sector. This chapter has introduced the topic, the main body of the research (including research background), research rationale and research aim and objectives. The current study fills the research gap in the area of foreign entry into banking, providing a new model for the FDI decision-making process in banking. The model comprises of the theories related to FDI and other theories in consonance with FDI. The next chapter looks at a detailed review of the literature on FDI, which includes the theoretical framework of FDI starting from the traditional theories to the most recent theory. This leads on to a discussion of the reasons for, location characteristics of FDI, and a focus on the types of FDI based on investment motives and ownership motives shaping up to a detailed discussion on the location characteristics and their effects on MNEs location decision in the Ghanaian banking sector.

Chapter 2: Review of the extant literature on FDI

2.0 Introduction

This thesis investigates the FDI location characteristics of MNEs location decisions in the Ghanaian banking sector. To enable an evaluation and to broaden the understanding of financial markets' liberalization and the major location decision in the Ghanaian banking sector, it is necessary to review the literature on a number of different but related areas. The literature on FDI can be categorized into three main groups. The first group investigates the effect of FDI on macroeconomic indicators, such as economic growth, exchange rate, rates of inflation, balance of payments, and rates of unemployment. The second group examines the impact of FDI on other factors such as technology transfer to recipient countries, management practices by national firms, and labour skills and productivity in hosting countries. The third group focuses on the characteristics of FDI and the main driving forces for its inflow and outflows to different countries. This topic is a very interesting one for researchers from different disciplines. The review of the literature on FDI in this thesis begins by examining the various definitions of FDI and moves on to the historical pattern of FDI pre-first world war, the inter-war period and the post-war period which led on to the well publicized literature on globalization.

Globalization refers to the increased quantity and speed of goods and services traded across the globe and to the geographical spread of participants, the strength and depth of institutions which facilitate trade, and the impact of trade on domestic economic arrangements.

Globalization has been facilitated by new financial instruments, which permit a wider range of services to be bought and sold across the world economy. To achieve the main objective, this chapter sets out a context for understanding the theoretical framework underpinning FDI.

2.1 Definitions of FDI

It is difficult to apply a distinct and narrow definition to FDI. According to Ietto-Gilles (2005) FDI is defined in terms of its international characteristic and compares it with portfolio investment. It is also expressed in terms of the activities of MNC's although it appears to have two common elements. One is that FDI involves at least two countries. This measure, according to Pigott and Cook (2006) relates to the multinational character of FDI. The other measure is the issue of ownership and control, which makes a distinction between FDI and portfolio investment: *Foreign portfolio investment is a simple transfer of financial capital, equity or loan from one country to another whereas FDI involves the ownership and control of production activities abroad* (Piggott and Cook, 2006:187).

Most importantly, at this stage, what constitutes ownership and control remains debatable. UNCTAD (2009:35) defines FDI as an investment made by a resident of one economy in another economy which is of a long term nature or of *lasting interest*. It should be noted in this context that a *country of residence* is different from nationality or citizenship. The second element is that the investor has a *significant degree of influence* on the management of the enterprise. The 5th

Edition of the IMF's *Balance of Payment Manual* defines the owner of 10% or more of a company's capital as a direct investor (IMF, 1993). It acknowledges the fact that 10% is only a guideline and that smaller percentages can be accepted. It goes on further to recommend using the percentage as the basic dividing line between direct investment and portfolio investment in the form of shareholding. As mentioned earlier there are clearly some difficulties in determining a definition of FDI, but partly for theoretical and partly for empirical reasons it is necessary to categorize FDI. Piggott and Cook (2006) believe that it is sufficient to define FDI as the acquisition, establishment or increase in production facilities by a firm in a foreign country.

The definition covers three areas of FDI: *Greenfield investment* – which is when FDI enters a particular industry for the first time. For example, creating a new production facility in another country rather than purchasing a new production facility. With this example the creation of the new production facility offers job opportunities once the site is fully functional. The second element is *mergers and acquisitions* – this is a result of a legal joining of two firms under a single ownership. The final element of FDI is *reinvestment* - this is where a foreign firm, that is already established, reinvests its profits in the host country rather than repatriating them. Baker (1990) states that what distinguishes FDI from portfolio investment, in the case of acquisition, is that the investing firm acquires enough equity to exercise control over the capital invested. The proportion of equity needed to have control is a matter of judgement.

2.2 Historical pattern of FDI

Finding data relevant to distant historical conditions has represented a challenge but, despite the difficulties, it is revealed in this section of the thesis that the role of foreign direct investment has been very important since as far back as the industrial revolution. FDI is viewed from prior to the First World War through the inter world war and finally the post-world war periods. Wilkins (1970) argues that FDI goes back to 2500 BC, when Sumerian merchants found, in their foreign commerce, that they needed men to be based abroad to receive, store and sell their goods. In the mid-17th century, English, French and Dutch mercantile families sent relatives to America and the West Indies to represent their families. In time, American colonists found their own foreign trade and that it was advisable to have correspondents and agents in important trading centres to sell American exports. In the 19th century there was migration *en masse* from Europe to the Americas, which was accompanied by the movement of large amounts of capital. As colonialization got underway there was the need for international investment as firms were competing for markets in terms of both financing their imports of raw materials and exporting their manufactured goods (Piggott and Cook, 1999).

FDI in the 19th century was concentrated in natural resources and transportation, but was also found in energy and financial services. World exports of manufactured goods (most of which dominated the investment scene) came from the United Kingdom (Piggott and Cook, 1999). In the period before the First World War there was considerable movement of capital in the form of investments and until recently it was thought that most of this consisted of portfolio

investment but, as stated by Lipsey (2001), research indicates that the role of direct investment was much more important than previously assumed. Table 2.0 below shows the percentage shares of cumulative FDI outflows by country. Just before the 1st World War the most important capital exporting country was the UK accounting for 45.5% of the entire cumulative FDI outflow, an approximate 7% of its national income. The United States and other European countries (such as Germany, France and the Netherlands) followed. Hood and Young (1979) claim that by 1974, 4% of British investment in LDCs and America was direct investment. The other inter- war years witnessed a slowdown in the expansion of international business including capital exports. Britain was still the main creditor country, but continental Europe changed from net creditor to net debtor status by the 1920s because of the war debts and reconstruction after the First World War (Piggott and Cook, 1999).

Table 2.0 Percentage shares of cumulative FDI outflows by country

	1914	**1938**	**1960**	**1980**	**1999**
Developed countries	100.0	100.0	98.9	100.0	89.9
UK	45.5	39.8	16.2	15.0	14.0
Germany	10.5	1.3	1.2	8.0	8.0
France	12.2	9.5	6.1	4.0	7.2
Netherlands	5.0	7.0	10.5	7.0	6.0
Other W. Europe	5.0	10.2	8.0	10.0	19.0
Japan	2.1	3.0	0.8	8.0	6.2
United States	18.5	27.5	49.2	40.0	27.5
Rest of developed countries	1.2	4.7	8.0	8.0	2.0
Developing countries	0.0	0.0	1.1	-	9.8

Source adapted from Piggott and Cook (1999) and O' Rourke (2002)

After the Second World War, FDI dominated capital markets (Lipsey, 2001). The prevailing position of FDI was mainly a result of the

increase in the United States' capital outflows up to the 1960s, after which FDI from Europe, Japan and the newly industrialized countries began to play an increasingly important role (Pigott and Cook, 1999). In the 1950s and 1960s, the Marshall Plan, the International Monetary Fund (IMF), the General Agreement on Tariffs and Trade (GATT), the formation of the European Economic Community (EEC) and the revolutionary developments in communications and transport, such as the computer and the jet aircraft, were contributory factors for the phenomenal increase in FDI from the United States. As shown in table 2.0, the United States showed an increase in cumulative share of the world capital stock from 27.5% to 49.2%, whereas the share of Western Europe declined over the same period.

> *Globalisation is a fact… Not just in finance, but in communication, in technology, increasingly in culture, in recreation. In the world of the internet, information technology and TV, there will be globalisation. And in trade, the problem is not there's too much of it; on the contrary there's too little of it... The issue is not how to stop globalisation. The issue is how we use the power of community to combine it with justice... the alternative to globalisation is isolation*.
>
> (Blair, UK Prime Minister, 2001)

According to Gelb and Sagari (1990), despite increased globalization in the provision of financial services, economists have found it difficult to present policymakers with a compelling empirical

assessment of the effect of foreign entry on domestic banking. This stems largely from a lack of comparable cross-country data and the modest level of foreign entry that had occurred in many countries until recently. In its entirety, globalization from an economic standpoint is the process by which local and national economies become incorporated into a larger economy, and this is through FDI, international trade and capital markets. One of the most remarkable features of the last decade has been the transformation of most economies in the world. This tremendous transformation can be attributed to the increase in FDI, which is driven by the globalization of the world economy. Graham *et al.* (2004) refer to globalization as the flow of goods and services, capital (money) and knowledge across country borders.

Globalization enhances the economic interdependencies among countries and organizations. Institute of Statistical, Social and Economic Research [ISSER] (2007) states that the Ghanaian economy, since 2000, has experienced growth rates averaging 5.5% per annum, compared to 5% for the half decade before. The government has attributed this improved performance to prudent fiscal and monetary discipline in spite of substantial crude oil price rises and energy shocks in the last few years.

Edwards and Rees (2006) contend that existing expressions and discussions of the term globalization are ambiguous or inconsistent and that the debate is often entangled in polarized exchanges. One side of the debate includes the ideology that the greater part of social life is determined by global processes in which national cultures, national economies and national borders are breaking away. Authors such as

Korten (1995) and Ohmae (1990) support this debate. The opposing view of the debate is expressed by Doremus *et al.* (1998), Hirst and Thompson (1999) and Zysman *et al.* (1996), in stating that there have been many significant changes in the international economy and that many aspects of globalization arguments are either exaggerated or are not unprecedented. The reason for the perplexity surrounding the term globalization is the way it is often used interchangeably with a range of other concepts, e.g., internationalization, liberalization, universalization, westernization and modernization. Another facet of the ambiguity around globalization is to do with the way the term is used within certain areas. Scholte (2000) illustrates this in the use of the following terms, which highlight the important aspect of the concept: global communication, global market, global production, global money, global finance, global organization, global social ecology and global consciousness.

A truly global economy is claimed to have emerged, or to be in the process of emerging, in which national economies, and therefore strategies of national economic management, are increasingly irrelevant (Edward and Rees, 2006:27). They claim that the world economy has internationalized in its basic dynamics, which are dominated by unruly market forces and are solely driven by economic actors and major agents of change, mainly *transnational* corporations that have no strong ties with a nation state and can locate anywhere on the globe where market advantages dictate. Child (2002) outlines that what they have in common is a lack of sensitivity to particular nations or regions as a special context, referring instead to *universal rationales*. The universalism is seen to arise from ubiquitous economic and technological forces, and predicts an increasing

convergence between modes of organization, as countries developing similar economic and political systems have accelerated the globalization process. Examining the argument on the internationalization of financial markets, over the last 20 years, the barrier to transferring money from one country to another has been removed. Governments used to restrict the flow of money in and out of other countries, but it is safe to argue that with international organizations such as the IMF this is no longer the case. Technological advancement has also been a major contributory factor for this development. The daily exchange of foreign currencies is now $1.2 trillion, more than 100 times the amount traded 30 years ago (Guillen, 2001).

The scale of economic activity controlled by multinational corporations has increased immensely over the last 20 years. UNCTAD (2009) estimates that there are around 61,000 multinationals in the world, controlling around 900,000 subsidiaries. These firms make annual sales of $19 trillion and directly employ around 54 million people. The stock of FDI controlled by MNCs increased steeply from $560 billion in 1980 to $7,123 billion in 2002. The increase in the magnitude of the economic activity can be attributed to rapid growth in cross-border mergers and acquisitions. In contrast, critics such as Doremus *et al.* (1998), Hirst and Thompson (1999), Ruigrok and van Tulder (1995) and Wolf (2004) have a different view on the global economy. Firstly, the present highly internationalized economy is not unprecedented given the international economy is less open and integrated than the régime that prevailed from 1870 to 1914. The 19th century witnessed the biggest migration in history as 60 million Europeans moved to the Americas,

60% going to the USA. Legrain (2000) claims that an estimated 2.5% of the world's population reside in a country that is not their country of origin. In the latter quarter of the 20th century, however, the overall number of people migrating (on a legal basis) was lower than it had been 100 years earlier. This is largely because of the clampdowns on immigration by developed countries in general and in particular the USA (Hirst and Thompson, 1999). Secondly, FDI remains heavily concentrated in advanced industrial nations. Capital mobility is not producing a massive shift of investment and employment from the advanced to the developing countries. It is difficult to argue that the world economy is truly *global.* Investment financial flows are highly concentrated in the triad nations. The developed economies have accounted for 85% of outward FDI and also received over 65% of inward FDI. Africa, with a population of around one billion, receives just 2.3% of the total FDI; India, with a population of nearly one billion, receives just 0.3%. China, which has witnessed a massive increase in FDI, receives 6% of the total but accounts for over 20% of the world's population (UN, 2004). This demonstrates that there is a serious inequality in terms of who receives and benefits from this form of investment.

Furthermore, transnational firms are relatively rare. Most organizations are based nationally and trade multinationally on the strengths of major national locations of assets, production and sales, and there seems to be no strong tendency towards the growth of truly international companies. Even among the largest 100 MNCs in the world, which are those that we might expect to be globally orientated, the evidence points to the roots of these firms being in their original national base. Strictly speaking, a truly global economy is one

dominated by transnational firms and financial institutions, operating in world markets independent of national boundaries, national political objectives and domestic constraints (Bryant, 1990). It is known that most MNCs retain strong linkages with financial systems in their country of origin and fill most senior managerial positions from the home base. MNCs rely on their home base as the centre for their economic activities despite all the speculation about globalization. Global economic flows are minor when compared to domestic flows. As the debate on the growth of global FDI continues, overall levels are quite small in comparison with domestic output and income.

Hirst and Thompson (1999) claim that in relation to international trade, while there is a debate about the most useful way of measuring how important levels of trade are to national economies, the higher estimates suggest that merchandise exports, as a proportion of GDP, are only 20% in countries such as France and the UK and as low as 10% in the USA and Japan. Many sectors are purely dominated by national and sub-national level organizations and hence are relatively free from the pressure of globalization. Newell (2002) claimed that market activities are shaped by the social and political institutions that create and maintain them. He further states that the World Bank and IMF have clearly played a significant part in creating conditions for market expansion and globalized transactions by moulding the policies of states in a neo-liberal guise. Bird *et al.* (2000) argue that in the face of regulatory incentive conflict, large amounts of external aid may merely push a country's fundamental policy underground. In any case, the IMF's lending tends to diminish the market discipline that regulators feel in the face of crises. African economies over the last

decade have actively pursued various economic reforms to attract foreign investors in order to become competitive in the international financial market. Ghana has had a much more liberalized régime for FDI: governments have addressed investors' concerns, privatized public enterprises and, most importantly, promoted investments into the country.

2.3 Types of FDI based on ownership motives

According to Dunning and Lundan (2008), FDI may be classified as one of the following three forms: *greenfield investment*, *cross border merger and acquisition strategies*, and *joint ventures*.

***2.3.1 Greenfield investment* –** involves starting a new operation from scratch (the word *Greenfield* arises from the construction industry and the image of starting with a virgin green site and then building on it) (Griffin and Pustay, 2010). OECD (2008a) *Greenfield investment* is whereby foreign investors build a new productive unit from scratch. For example this involves building an entirely new company in a foreign country to allow the firm to deploy its corporate assets abroad. The advantages associated with Greenfield investment include the following. The firm can select the site that best meets its needs and construct modern, up-to-date facilities. Local communities gain from the economic development standpoint as they attract such facilities because they will create new jobs, and these incentives lower the firm's costs.

According to Griffin and Pustay (2010), this type of investment has some disadvantages. Firstly, this type of investment takes time to initiate. Secondly, land in the desired location can be expensive. Finally, by constructing a new facility, the firm may be strongly perceived as a foreign enterprise. Data on FDI projects (greenfield investments and cross-border M&A deals) for the first few months of 2011 showed a 9% rise over the same period of 2010 in Africa as a whole, but this rise was mainly driven by a large investment in Ghana (Imara Africa Securities Team, 2011).

2.3.2 Mergers and acquisitions – another FDI classification, is through an acquisition or merger of an established firm in the host country. This type of strategy has two main advantages over greenfield investment. Firstly, it is cheaper; for instance, if the going concern is a loss-making operation this can be acquired cheaply. Secondly, the investor gains quick access to the market. Moosa (2002) and Dunning and Lundman (2008) argue that firms may be motivated to engage in cross-border acquisition to strengthen their competitive positions in the world market by acquiring special assets from other firms or by using their own assets on a larger scale. The disadvantages of this type of strategy include the investor assuming all the liabilities, finance and management of the acquired firm. If the acquired firm has, for example, poor labour relations and hidden environmental issues, the acquiring firm becomes financially responsible for solving such problems. The greenfield strategy, in contrast, may allow a firm to grow slowly and spread its investment over an extended period (Griffin and Pustay, 2010). Foreign bank participation in developing

countries has increased immensely through cross-border mergers and acquisitions (Clark *et al.* 2003).

2.3.3 Joint venture – another form of FDI is joint venture. Joint ventures are created when two or more firms agree to work together and create a jointly owned separate firm to promote their mutual interests (Griffin and Pustay, 2010). Moosa (2002); Dunning and Lundman (2008) argue that joint venture arrangement usually constitutes by either a company or a government in the host country joining forces with a foreign company. The company that is foreign in the host country normally provides the technical expertise and raises the finance, while the local company or the government provides valuable input through its local knowledge of the bureaucratic procedures, local laws and regulations. According to Caprio and Cull (2000), some host nations provide incentives or establish requirements for foreign banks to adapt to a specific mode of entry and organizational forms.

2.4 Types of FDI based on investment motives

Dunning (2000) provides a brilliant synthesis of the ten key location advantages these are: (1) traditional theories; 2) theories related to the process of internationalization; 3) agglomeration theories; 4) theories related to spatially specific transaction costs; 5) theories related to the presence of complementary assets; 6) theories related to government-induced incentives; 7) theories related to oligopolistic behaviour and product cycles; 8) theories of risk diversification; 9) exchange rate theories; and, 10) knowledge enhancing (dynamic) theories on location. According to Rugman and Brewer (2001) and Dunning and

Lundan (2008), the four main types of FDI of MNE activity include *natural resource seeking FDI*; *market seeking FDI*; *efficiency seeking FDI*; and, *strategic asset seeking FDI*. For the purposes of the discussion on FDI in banking, three out of the above are applicable. Market seeking, efficiency seeking and strategic seeking can be relevant for the banking sector. For the purposes of the discussion of FDI relating to banking the following motives are relevant;

2.4.1 Market seeking FDI – is more difficult to reconcile with conventional trade theory because it usually has an immediate import substitution effect (except if trade barriers have made imports impossible in the first place), but often leads to trade creation (Lipsey and Weiss, 1984; Rugman, 1990). Investment is made in a particular country or region to supply goods or services to markets in the country or neighbouring countries. According to Vernon (1966), cited by Rugman and Verbeke (2008), the first complexity with this type of FDI is that the location advantage of specific countries may shift over time as shown in the product lifecycle. A net exporter of innovative products may switch to market seeking FDI and may later become a net importer of the same, but now standardized, product. The second complexity is that substantial intra-industry FDI can now be observed, reflecting the differential firm-specific advantages of rivals in an industry but also the similar location advantages of the countries, as both the source nation and recipient of FDI. Thirdly, a complexity exists even within a single MNE; complex intra-firm flows of knowledge and goods can be observed, reflected in complex network linkages among the various members (Rugman and Verbeke, 2001).

Market seeking FDI opens up new markets in the host country or neighbouring countries; the main aim of this is to make a reduction in the cost of supplying a market. This is usually a common reason to invest abroad. Knickerbocker (1973) claimed that this type of FDI may be used as a defensive strategy. According to Dunning (1993), businesses are more inclined to push towards this type of FDI out of fear of losing a market other than discovering a new one. Gray and Gray (1981) support this by mentioning that good opportunities in a new location, lack of opportunities at home and strict regulations encourage foreign entry. Given the geographical advantage, a market leader can maintain and expand its market positioning.

According to Grubel (1977), banking can be distinguished by three different segments: wholesale banking, retail banking and service banking. Market seeking through wholesale banking will completely differ from retail banking. Neuberger (1998) describes wholesale banking products as relatively homogenous; having mainly large corporate customers, there is no need for banks to put forth aggressive strategies to dominate certain markets. The switching costs are low and large organizations usually have access to alternative suppliers. The barriers to the market are relatively small. Wholesale banking markets have properties of contestability. In contrast, retail banking is heterogeneous. The main customer householders are small- and medium-sized firms. It is alleged that retail banking customers are badly informed about the range of services as there is the notion of cost involved for information gathering, hence the low demand. To further confirm this Tschoegl (1987) argues that knowledge about local conditions is an important input in multinational retail banking. The size of Ghana's market measured by its GDP is small compared to

that of neighboring countries like Nigeria. In 2007, for instance, Ghana's GDP was about $15.25 billion, compared to $165.69 billion for Nigeria (World Bank, 2008c). This suggests that, holding other factors constant, MNEs considering a location in this region should have a preference for Nigeria, where the market is more attractive. Market potential, however, although correlated with market size, could be the more relevant factor.

2.4.2 Efficiency seeking FDI – rationalizes the structure of established resource-based or market-seeking investment in a way that the investing company can gain advantage(s) from the common government of geographically dispersed activities. According to Rugman and Verbeke (2008), this type of FDI leads to higher complexity in terms of the location advantages of a country. Rugman (1990) states that it is important to understand the specific role given or earned by affiliates in the company. The benefits of this type of FDI are essentially those of the economies of scale and of risk diversification. Kravis and Lipsey (1982) argue that MNEs' exports are primarily from high labour cost countries with large markets, implying to some extent the presence of local economies of scale.

Efficiency seeking compels firms to concentrate or switch production in favour of the most cost-effective locations. Firms may find that operating in a foreign market enables them to exploit economies of scale that cannot be obtained in the open market due to a variety of market failures. Dunning (1993) states that typically, this type of FDI is mostly widely practised between developed economies, especially those within closely integrated markets, e.g., the EU (European

Union). Dunning (1998:2) argues that: *the greater the perceived cost of transnational market failure, the more MNEs are likely to exploit their competitive advantage through international production rather than contractual agreements with foreign firms*. In support of the above statement, having offshore operations generates cost efficiency (Rugman and Verbeke, 2008). Gray and Gray (1981:43) argue that: *becoming multinational merely extends economies of operation to new markets*. Eckel (2003) argues that the objectives of the efficiency-seeking FDI suggest that MNEs will relocate to a developing country to reduce their production costs. Efficiency seeking FDI has become particularly relevant in recent times, when price competition, induced by globalization, has forced firms to continuously seek cost-reducing measures. This variable is normally expected to be particularly important for non-mining MNEs in Ghana (Barthel *et al.* 2011).

2.4.3 Strategic asset seeking FDI – assets of foreign firms are secured by acquisition or joint ventures, to create synergies with an existing pool of assets through common ownership, e.g., the research and development performed by the host country rather than the home country, which constitutes the key location factor leading to FDI. To the extent that the acquired assets sourced from a host nation are also linked to a localized innovation system, the MNE as a whole may get access to at least some spill over from that innovation system. On the contrary, the localized innovation system may benefit from being associated with the foreign MNE (Rugman and Verbeke, 2008). According to Rugman and Brewer (2001) and Dunning and Lundan (2008), the investment involved includes the establishment of MNEs

pursuing and integrating a global or regional strategy, and first-time foreign direct investors seeking to access or buy some kind of competitive strength in an unfamiliar market. Strategic asset seeking FDI looks at the location as being a major factor, which provides a platform available in terms of research and development and other benefits. This is also a tactical investment to prevent the loss of resources to a competitor. Green (2002) suggests that it is more fitting to view banking acquisition as a means of market seeking rather than a distinct motive in its own right. Fiscal incentives could be a significant characteristic of FDI inflows in SSA, if investment is efficiency seeking or strategic asset seeking, but only a few SSA countries possess locational factors that would attract these types of FDI, e.g., South Africa and Mauritius (Cleeve, 2006). In terms of each of the factors discussed the strengths and challenges of African FDI are summarized in appendix I

2.5 Rationale for FDI

Brooke (1996) gives a detailed analysis of the strategic reasons for foreign direct investment through the classification of defensive and aggressive rationales for foreign investment in a checklist form. This is viewed from a foreign manufacturing subsidiary standpoint. The strategies to defend business include: 1) government action on tariff barriers, import controls and legislation; 2) demand for local manufacturing; 3) transport costs and delays; 4) problems with agents and licences; 5) technical difficulties abroad, e.g., problems with after-sales service; 6) the need to protect patents and intellectual property; 7) the need to ensure access to raw materials and components; 8) the need to internationalize to match competitors, suppliers and customers; and, 9) the need to protect parent company shareholders against recession. Brooke (1996) includes the following for why aggressive decisions are made for a foreign establishment in a manufacturing subsidiary: 1) the search for more profitable uses for under-employed resources; 2) the search for lower factor costs; 3) the development of global plans and strategies; 4) the desire for access to foreign knowledge; and, 5) the need to expand.

Aharoni (1966) studied 38 US companies, which had considered foreign investment in Israel and identified the following external reasons for foreign investment: 1) invitation from an outside source, such as a foreign government offering incentives for inward investments; 2) fear of losing a market; 3) the *band wagon* effect, i.e., the need to match competitors who have already been successful in foreign markets; and, 4) strong competition from abroad in the home market. In attempting to understand why banks invest abroad, Grubel (1977) and Walter (1988) explained this by using the *follow-the-*

customer hypothesis. The modern view of this hypothesis emphasizes the active role of banks in the host country's banking sector: banks applying their comparative advantage in management technology and marketing know-how in foreign countries at next to no marginal cost. Banks go multinational to better the services of the foreign operations of domestic corporate entities. For example, if a host nation like Ghana has a broad trade link with other foreign nations, then there will be a demand for a variety of trade-related intermediary services such as foreign exchange, and insurance will be high. Vastrup (1983) further adds to the *follow-the-client* hypothesis by arguing that there is a substantial fixed cost element in the credit rating activities, i.e., banks can lend more cheaply than their competitors. Clarke *et al.* (2003) claim that studies that link foreign entry with other foreign direct investment are often seen as supporting the argument that banks follow their customers abroad. The globalization debate makes it easier for others to follow as failure to follow the customer may prompt others to make inroads on capturing the domestic market.

According to authors such as Balough and Scaperlanda (1983), Karvis and Lipsey (1992), Mody and Wheeler (1992) and Mody and Srinivasan (1998), the host country's market size plays an important role in attracting FDI, especially when the host country's market allows the development of economies of scale for import substituting investment. Furthermore, banks operate in other countries due to the fact that some host nations may be providing out-dated technology. Walter (1985) suggests that such a reason attracts foreign entry, which then exploits these markets by providing newer technologies and a better marketing tool. Levine (1997) and Rodrik (1998) claim that in developing countries technological change that speeds up the

globalization of domestic capital markets challenges regulators both economically and politically. Economically they argue that the challenges are twofold. Firstly, foreign markets lessen the exposure of financial shocks inbuilt in an individual country's concentration of real capital in a few economically vulnerable industries. Secondly, the challenge is to persuade well-linked institutions that have traditionally dominated these countries' financial markets to abandon protected and subsidized ways of doing business.

As a result of globalization, local banks are competing in the global market, where the innovative financial products of these banks are the key limiting factor in the development of a local bank. Ghanaian banks have been prudent and prominent in the rapid expansion of consumer lending and these can be attributed to the tools set in place as a result of technological advancement. Banks face very stringent regulatory policies wherever they are based. Some nations may, however, choose to open up and allow financial firms to enter in a relatively lax regulatory régime if the perceived gains are high. Hultman and McGee (1989) argue that tax laws may also have affected foreign banks' decisions about where to locate and what type of office to establish. In support of this, authors such as Focarelli and Pozzolo (2000) find that foreign banks prefer to invest in countries with fewer regulatory restrictions and banking activity. NEPAD / OECD (2005) claim that foreign purchases of domestic shares (in capital markets) have been relaxed in several countries. Without prejudice against restrictions on FDI law, non-residents are now in principle allowed to own up to 100% of domestic enterprises in all the SSA countries except Ghana, Kenya and Mauritius, where foreign ownership cannot exceed a fixed threshold. Ghana's financial sector is

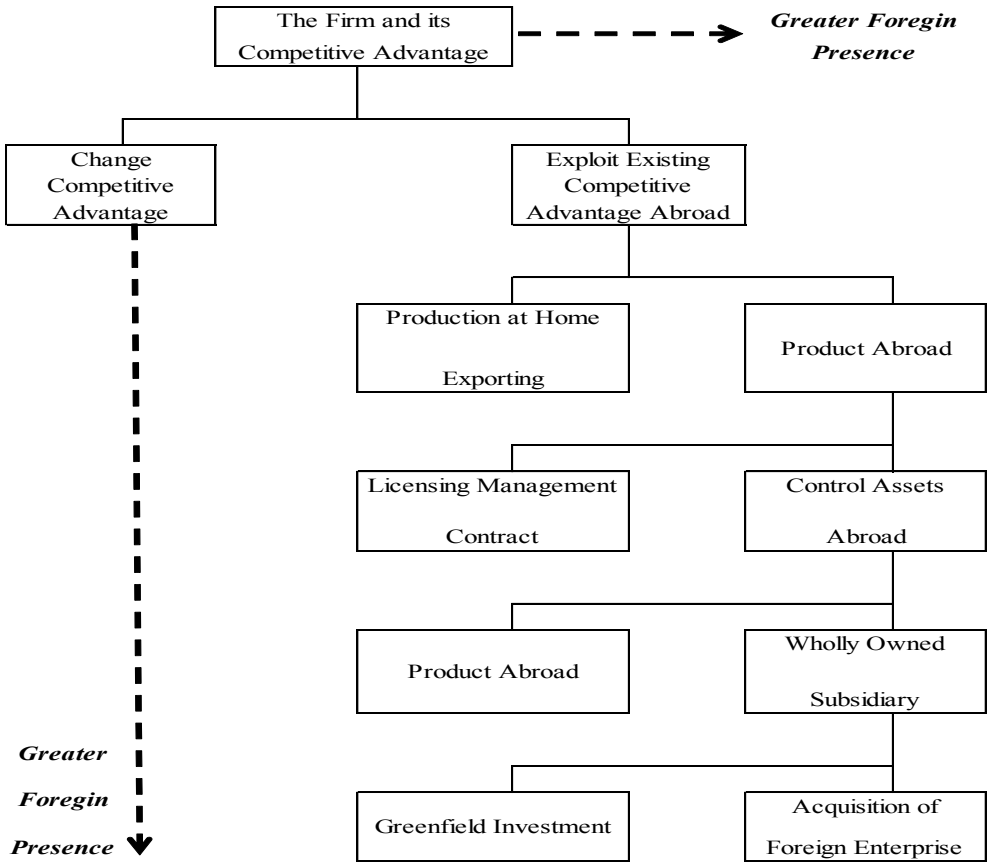
dominated by the foreign banks that emerged after the liberalization of the financial market over the past eight years. Walter and Gray (1983) suggest that countries that have a comparative advantage in the production of banking services are more likely to favour an open system.

Khoury (1980) claims that the idea of risk diversification is a prime motive for the internationalization of banks; using the data from 13 US banks, he discovered that the domestic and foreign assets of these banks exhibit essentially similar returns and risks but are negatively correlated with one another, and that 12 of them achieved risk diversification through international expansion.

> *A convergent conclusion of the empirical literature in this area is that total portfolio risk of both the domestic and foreign portfolio assets has been lower than the risk of purely domestic portfolio, while the return on international assets may or may not be higher than the rate of return on domestic assets*. (Rugman and Kamath, 1987:45)

The decision to invest abroad is influenced by behavioural factors (Eiteman *et al.* 2004). Note that there is a difference between the decision about where to invest abroad for the first time and where to re-invest abroad. Firms learn from their first few investments abroad, which influence subsequent investment decisions. Figure 2.0 was adopted from Eiteman *et al.* (2004) and it looks at the sequence of FDI. For them, the globalization process includes decisions regarding where production is to occur.

Figure 2.0 The FDI sequence: foreign presence and foreign investment



Source Eiteman *et al.* (2004)

Figure 2.0 shows that a firm's competitive advantage provides an avenue for greater foreign presence. According to Eiteman *et al.* (2004) factors such as change in competitive advantage or exploit for competitive advantage abroad can contribute in raising the competitive advantage of foreign companies.

2.6 Theoretical framework of FDI

The complexity of FDI makes it difficult to fit into one straight theory (Piggott and Cook, 2006). Firstly, as stated earlier, there is a problem in having a standardized definition of FDI. Secondly, there is always a theory of MNCs when FDI is discussed which brings in the debate of the theory of the firm. Thirdly, the nature of FDI makes it a multidimensional subject within the confines of economics as well as being an interdisciplinary one. It therefore involves the theory of the firm, distribution theory, capital theory, trade theory and international finance as well as the discipline of sociology and politics. Consequently there have been many explanations of FDI, but these have not made it possible to identify any single theory of FDI (Sezer, 2006). Given that it is not easy to classify the explanations of FDI into distinct groups because of the substantial overlap between the explanations, this section of the thesis looks at the related theories of FDI. These are categorized in three broad areas: traditional theories, modern theories and radical theories.

Traditional theories are based on neoclassical economic theories and explain FDI in terms of location-specific advantages. The thesis topic is geared towards location-specific advantages and therefore traditional theories such as capital arbitrage and international trade provide explanations as to why FDI occurs.

Modern theories emphasize the fact that product and factor markets are imperfect both domestically and internationally, and that considerable transaction costs are involved in market solutions; these include the Hymerian view, the Aliber theory of FDI, the product life cycle model, Internalization theories of FDI and the eclectic theory of

FDI. All these modern theories recognize the fact that managerial and organizational functions play an important role in undertaking FDI. The third category discusses the radical theories which take more of a critical view of MNCs.

There are three different types of advantages that are assumed by some authors such as Badri *et al.* (1995); Dunning (2002); MacCarthy and Atthirawong (2003) Mmieh and Owusu-Frimpong (2004); Cleeve (2009); Mmieh and Asimenu (2012) to be necessary to explain the main activities of MNCs: ownership advantage, location advantage and internalization advantage. Ownership-specific advantage (OSA) refers to certain types of knowledge and privileges that a firm possesses but that are not available to its competitors. These advantages arise because of the imperfections in commodity and factor markets. Imperfections in the market may also arise from the existence of internal and external economies of scale or from government policies such as taxes, interest rates or exchange rates. Hood and Young (1979) state that market imperfections give rise to certain ownership-specific advantages which may be grouped under the following: ***1) technical advantages***: these include holding secrets such as patents, unavailable technology or management organizational techniques; ***2) industrial organizations***: this relates to the advantages arising from operating in an oligopolistic market such as those associated with joint R&D and economies of scale; ***3) financial and monetary advantages***: these include preferential access to capital markets so as to obtain cheaper capital; and, ***4) access to raw materials***: this only applies if a firm gains privileged access to raw materials or minerals. Location-specific advantage (LSA) refers to certain advantages that the firm has because it locates its production

activities in a particular area. Such advantages can come from: ***1) access to raw materials or minerals***: this advantage applies to all firms established in the locality, so it is not privileged access as with the ownership advantage, and so not sufficient to explain FDI itself; ***2) imperfection in international labour markets***: these create real wage-cost differentials which provide an incentive for the MNC to shift production to locations where labour cost are low; ***3) trade barriers***: these provide an incentive for MNCs to set up production in certain locations; and, ***4) government policies***: a government can use its power to set economic policies such as taxation and interest rate policies, to influence the location of FDI.

Internalization-specific advantage (ILA) occurs when international market imperfections make market solutions too costly. The idea is that the market is too costly or inefficient for undertaking certain types of transaction, so whenever transactions can be organized and carried out more cheaply within the firm than through the markets, they will be internalized and undertaken by the firm. The benefits of internalization can be grouped under the following headings: 1) the advantage of vertical integration covers such things as exploitation of market power through price discrimination and avoidance of government intervention by devices such as price transferring pricing; 2) the importance of intermediate products for research-intensive activity: the firm appropriates the return to its investment in the production of new technology by internalizing technology; 3) the internalization of human skills keeps the benefits of training and so on in the firm, particularly in high-return areas such as marketing and finance. According to Piggott and Cook (2006) internalization is not

entirely costless. It creates communication, co-ordination and control problems and the ultimate cost of acquiring local knowledge.

2.6.1 Traditional theories of FDI

2.6.1.1 Arbitrage trade theory: this states that direct investment flows from countries where profitability is low, to countries where it is high. According to Sezer (2006) it follows the same pattern as portfolio investment, which flows from low interest rate countries to high interest rate ones. The theory assumes that capital is mobile both nationally (across industries) and internationally (across national boundaries). Some interesting hypotheses have been derived from this theory. Firstly, capital abundant countries should export capital and capital scarce countries should import capital. Secondly, if capital arbitrage were all there is to FDI, one would expect large financial intermediaries to be prominent among MNCs. Thirdly, given that the link between the long term interest and return on capital portfolio investment and FDI should be moving in the same direction, the reality suggests differently.

2.6.1.2 FDI and international trade theory: the theory of capital movements was developed in parallel with trade theory. Heckscher – Ohlin (H-O) model does not deal with the subject of FDI in any explicit way. The theory assumes that there is more than one factor of production. The model establishes the proposition that countries will specialize in the production and export of those commodities that

make intensive use of a country's relatively abundant factor(s). FDI is ruled out of this model because the assumption is that factors of production are mobile across national boundaries. There is no need for FDI since international exchange of commodities render international movement of capital unnecessary (Piggott and Cook, 2006). It is important to note that if the assumption is reversed and it is assumed instead that factors are internationally mobile but commodities are not, we will be back discussing the theory of capital and FDI is explained.

2.7.2 Modern theories of FDI

2.7.2.1 The Hymerian view

Hymer (1976) was one of the authors who brought together both the Location Specific Advantages (LSAs) and Ownership Specific Advantages (OSAs) to explain FDI. The presence of OSAs to compensate for LSAs of domestic firms explains foreign involvement, but not why it is in the form of FDI. The answer is that FDI is preferable to exports because of tariff barriers and transportation costs (Piggott and Cook, 2006). According to Buckley (2006:109), *Hymer saw firms as primarily national and their national operations were seen as expansion from their home, national, base rather as a firm might diversify from its original industry*. Buckley (2006) goes on to explain Hymer's view that firms have a nationality in three senses. Firstly, they have a legal nationality, which provides a legal constraint on a firm's behaviour. Secondly, shareholders reside in a variety of and nations are, therefore, compelled to pay dividends in a variety of currencies. Thirdly, managers' nationality may affect their allegiance

and behaviour. Hymer (1960) made an insightful and clear distinction between portfolio and direct investment. He distinguishes the two as follows: direct investment implies control of the operation, whilst portfolio investment presents a share of ownership, but no control. Hymer (1960) noted that the US was a net exporter of FDI but a net importer of portfolio investment, and alluded to the differences in the two kinds of investment. According to Dunning and Rugman (1985) and Horaguchi and Toyne (1990), the main disagreement with the theory was that Hymer did not consider the issues of internalization. An alternative explanation of the growth of MNEs emphasizes the role of oligopoly and monopoly (Horaguchi and Toyne, 1990). According to Hymer (1960), direct foreign investment has a dual nature: it is an instrument, which allows business firms to transfer capital, technology and organizational skills from country to country. It is also an instrument for restraining competition between firms from different nations. The relevance of this theory to this thesis is that it provides an explanation as to why foreign banks will be able to transfer capital, technology and organisational skills from other countries to Ghana. On the other hand, this theory provides the reason why banks will have to compete against each other. The Hymerian interpretation sees FDI as an instrument for MNCs to exercise oligopolistic power to manipulate the market.

2.7.2.2 Distinction between internalization and internationalization theories of FDI

According to (Dunning 1981, Buckley and Casson 1985, Johanson and Mattson 1988 and Johanson and Johanson 1999) proponents of micro-economic policy analysis, internalisation is the activity in which an MNC internalises its globally dispersed foreign operations through a unified governance and common ownership structure. A firm, therefore, overcomes market imperfections by creating its *own market*. Buckley and Casson (1985) assert that internalisation occurs due to market imperfections which causes firms to utilise its monopolistic advantages by organising activity using available internal resources. In addition, Shenkar (2007) argues that internalisation occurs when existing markets fail to provide an efficient environment in which the firm can profit by making optimal use of its technology or production resources. As a result, firms would usually produce an internal market by investing in multiple countries and thus create the needed market to achieve their profitability objectives through economies of scale and efficient allocation of resources.

Although the concept of internalisation was first introduced by Coase in the 1930s, Buckley and Casson (1985) were the first to incorporate the Internalisation Specific Advantages (ISAs) into the main analysis of FDI in the 1970s. This theory explains the growth of transnational companies and their motives for achieving FDI. FDI in the 1970s was growing in high-technology-intensive manufacturing industries, where the integration of R&D with production and marketing was crucial. The incentive to internalize depends on the relationship between four groups of factors: 1) industry specific factors, e.g., economies of scale

and external market structure; 2) region specific factors, e.g., geographical distance and cultural distances; 3) nation-specific factors, e.g., political and fiscal conditions; and, 4) firm specific factors, e.g., management expertise (Piggott and Cook, 2006). Internalisation is as much a characteristic of a multi-plant uninational firm as of a multinational firm. The crucial point, however, regarding internalisation is the imperfections in either the commodity markets or the input markets, or both (Hill, 2005). Another important use of the concept of internalisation is the theory of *appropriability*. In this theory, the key advantage is that contracting out could be risky as it implies transferring the specific capital outside the firm and revealing the propriety information. According to Piggott and Cook (2006) this does not provide any monopoly power in the market but enables firms to make economic gains.

In this thesis, the internalisation theory could be used to explain part of the reason why financial MNEs have entered Ghana. It is argued in this thesis that declining opportunities and market imperfections in the home markets are perhaps the main factors causing foreign banks to enter Ghana. Avgouleas (2008) argues that the recent bank distresses in the Nigerian economy could be traced back to the US and UK which have seen banks under-utilise their available capacity and capital resource. In this regard, this study also argues that the recent entry of Nigerian and South African banks into Ghana could be due to the foreign banks attempting to internalise their operations, but not necessarily an improvement in the host country factors.

Internationalization, on the hand, considers the outward movement of a firm's operations (Turnbull, 1987). Luostarinen (1979) also

mentions that it is the process of increasing involvement in international operations. These studies suggest that the propensity of a firm to initiate foreign production will ultimately depend on the current and emerging home country factors in relation to the specific attractions of locating in another country. As Morgan and Katsikeas (1997) also argue that not only do resource differentials and firm-specific advantages play a part in determining overseas investment activities, but the actions taken by the foreign government to improve the institutional factors significantly influences the attractiveness and entry conditions for MNCs. One of the Uppsala Models produced by Johanson and Vahlne (1977) also indicates that the process of internationalisation is founded on a gradual and sequential build-up of foreign commitment over time. Thus, whilst the concept of internalisation is about a firm's ownership of its intellectual property, internationalisation theory is about a firm's ability to carry out business operations overseas.

2.7.2.3 The eclectic theory of FDI

Dunning's (1981, 1983) eclectic theory attempts to integrate the Hymerian view with the concept of internalisation, and claims that all three types of advantages [Ownership (O), Location (L) and Internationalisation (I)] are required for MNCs to exist. Dunning (2002) considered the eclectic model to be an analytical framework in which international production, including FDI activities of MNCs can be examined. Dunning (1993) identifies four main motives for FDI. Firstly, *market - seeking* FDI may be motivated by a desire to dominate or penetrate a particular market. The determining factor could be the size of the market or the particular characteristic of the market, such as geographical or cultural proximity. Chesnais *et al.* (2000) its effect on international trade would possibly be in the form of trade substitution, particularly in final products, but it would most likely be in the form of trade creation regarding the imports of capital goods from subsidiaries. Secondly, *resource – seeking* FDI would be motivated by available or cheap resources abroad. These resources may be natural resources e.g. oil or human resource such as a particular type of labour. This type of FDI is mostly in the form of 'greenfield investment' and has a trade-creating effect, which might turn into trade destruction if disinvestment occurs (Piggott and Cook 2006). Thirdly, *efficiency – seeking* FDI would be motivated by a strategic location that might enable the firm to minimise transportation costs, to have easy access to ancillary services and raw materials, or to reap economies of scale and scope by supplying different markets from one centre. Chesnais *et al.* (2000) this could be in the form 'greenfield investment' or Merger and acquisition; it usually enhances the international division of labour and is likely to have a trade-

creating effect. Fourthly, *strategic – asset-seeking* FDI might be motivated by a desire to improve the international competitiveness or to increase the market power of the firm. It takes place through Mergers and acquisition and aims to acquire firms with strong market positions and advance technology.

Many theories of FDI start with the question, why does a firm extend its activities to other countries? Dunning's answer is that there are LSAs to be enjoyed in the host country as discussed above. However, how could a foreign firm compete with the domestic firm of the host country? Dunning's reply to this question is the OSAs. These two answers inevitably lead to the third question why should a firm choose FDI instead of exporting or licensing? The answer lies with the ISAs

Gray and Gray (1981) applied this paradigm to the banking sector. For a bank to enter into a foreign market, it must be able to present some specialized service or have some advantage to be able to generate profit from the national market. Williams (1997:42) argues: *There are few opportunities for monopolistic advantages for a bank*. With strict national regulations, it is quite difficult to maintain a monopoly, as it is difficult to patent bank products.

The eclectic paradigm is very simple and can be explained using three sub-paradigms. Firstly, OSA gives an overview of the competitive advantage of enterprises seeking to engage in FDI. Firms seeking investment outside their home countries possess some kind of unique and sustainable advantage, but some traditional theorists argue that all firms have equal access to some resources and capabilities within their own countries. OSA provides a platform for foreign banking affiliates – a competitive advantage for the domestic banks of a host country in

the local market. Yannopoulos (1983) discusses the role of national currencies in the international monetary system mainly in the settlement of international trade. Banks with easy access to vehicle currency funds have a competitive advantage over other banks as the use of these currencies reduces transaction costs. According to Peng (2001) in order to protect competitive advantages, firm-specific advantages need to be both exploited and developed in the context of international business. In concurrence with the assertion of Peng (2001), Lou (2000) claims that as firm-specific resources are exploited in a foreign host market, new resources and capabilities are simultaneously created. In contrast to the debate of the competitive advantage in ownership, Michael Porter argues, *anything that can be moved or sourced from a distance is no longer competitive advantage* (Porter, 1998:60). Furthermore, Cho (1985) claimed that the main basis of banks' ownership advantage can be viewed in a number of proportions; these are: 1) size of the bank; 2) access to funding; 3) sources of currencies; 4) knowledge and experience in multinational banking operations; 5) knowledge and experience of a particular market; 6) scope of the bank's international network; 7) a bank's creditworthiness; 8) availability of skilled personnel; 9) product differentiability; and, 10) possession of customers with high international involvement. He goes on further to explain that the bank's knowledge, which comes from experience in operation, products, markets and customers, is very important. According to Dunning (1998), the eclectic paradigm has always recognized the importance of the LSAs of countries as a key characteristic of foreign production of multinational enterprises. Authors such as Knickerbocker (1973) provided first attempts at bringing insights into

the geographical clustering of FDI. He looked at the relationship between FDI and rivalry in oligopolistic industries and concluded that oligopolistic reaction was positively correlated with MNCs' FDI activities. Grubel (1977) used another hypothesis: *follow-the-client*. Banks on foreign soil will gain a competitive advantage in providing their clients great local knowledge and also providing a physical presence in the provision of finance. Mmieh and Owusu-Frimpong (2004) argue that as advanced countries become affluent, they continue to pursue FDI in geographical locations that have economic growth. Dunning (2000) discusses the idea that banking is a market-orientated business. Direct and personal contact with both actual and potential clients wherever they are located is essential. Gray and Gray (1981) address the need to have three location-specific considerations: 1) the need to preserve established customer accounts; 2) the desire to enter into growing or high-growth markets; and, 3) the need to ensure access to indigenous supplies of key currencies

Dunning (1998, 2000), in explaining why firms choose to engage in FDI rather than buy or sell intermediate products, arrives at the notion of internalisation. ISA theory has provided a dominant explanation over the past decade. Authors such as Dunning (1977), Rugman (1979, 1980) and Buckley and Casson (1998) have developed and incorporated the internalisation theory into the theory of MNEs. internalisation theory is mainly concerned with issues of why multinational enterprise (MNEs) exist. Gray and Gray (1981) further assert that the ability to internalize ultimately drives a transnational approach. Focarelli and Pozzolo (2000), in their study of foreign banks in 28 OECD countries, find that bank size is measured by total assets and it is positively correlated with internalisation. Chamberlin

(1950) established that product differentiation creates an independent element of a monopoly in an industry. The competitive advantage of foreign banking over local banks is the all-embracing product differentiation in financial services. As Sagari (1992) establishes, product differentiation can be either apparent or perceived. Apparent product differentiation is, in essence, differentiation that is visible; it is linked to the characteristics of quality of service. He goes on further to categorize the quality of service; to provide quality of service there are a few key issues. Transnational financial institutions can undertake international transactions more efficiently than can a host country's competitor. Certain currencies are very important in international trade and non-price competition is considerable in the market for banking services. Walter (1985) points out that the advantage derived from transaction efficiency may be strong in countries characterized by poor financial practices involving slow decisions and transaction times, high error ratios, lack of clarity and heavy bureaucracy. Secondly, Walter (1985) explains the existence of product differentiation based on human capital and financial practices. According to Walter (1985) human capital is one of the most important inputs in the production of financial practices. He goes on further to argue that transnational banks are able to offer career opportunities to their employees. These employees with great experience would in turn offer a wonderful client experience in terms of product innovation and market information. Yannopoulos (1983) acknowledges perceived differentiation as an additional source of significant competitive performance among banks regarding their ability to sell deposits and buy loans. The borrower perceives differentiation within the context related to the probability of loan

extensions and renewals according to the needs of customers. The depositor may perceive that differentiation is tied with the political and default risks investors attach to deposits held in banks with different endowments. According to Boateng and Glaister (1999), OLI are important characteristics of FDI, but it is only the location characteristics that can be influenced directly by the host government.

The eclectic theory is criticized on the basis that it is too general and includes too many variables to be of practical use; that the three legs of the paradigm are not independent from each other; and that it is not different from internalization theory and thus constitutes a macro explanation of FDI. In response to the criticism of this theory, Dunning (2001) claims that the theory is not meant to be a full explanation for all activities of MNCs but only a general framework that has a degree of interdependence. On the other hand, separating them out prompts the identification of policy implications. Hence, we can safely say that it is macro-analysis since it deals with the issue of FDI from a country level.

2.7.2.4 Transaction cost approach

The transaction cost or internalization approach was brought into prominence in the 1970s by McManus (1972) and examined the effects of the MNE on the internalization of external markets. Imperfections in foreign markets are assumed to be of the natural rather than the structural type, i.e., imperfections of a monopolistic nature. The analysis of the exponents of the transaction cost approach is based on the criticism of neoclassical economics, which arises from the non-realization of the assumptions of perfect competition. Hennart

(1991:83) defines transaction cost as the sum of information, enforcement and bargaining costs associated with a market transaction. The presence of transaction cost may offer alternatives such as hierarchies: more efficient than market solutions. Menard (1996) states that transaction cost identifies three factors affecting the trade-off between markets and hierarchies. There are uncertainties associated with transactions, the frequency of transactions and the asset specificity of the transaction. Transaction cost economics is sometimes referred to as *the economic theory of the firm*. This is because transaction cost economics typically are employed to explain how the characteristics of transactions determine whether a firm will replace market transactions. According to McManus (1972) in the absence of the perfect market and the price system giving flawed signals, the transaction costs, such as the cost of information, enforcement of agreements, and the cost of bargaining are often quite high. The price existing in foreign countries may not be based on market forces. The agents of the corporation in the foreign markets may exploit the multinational by generating non-pecuniary externalities. Such disadvantages to the company may be neutralized by adopting a mode of organization which attempts to co-ordinate the different production units in a hierarchical manner.

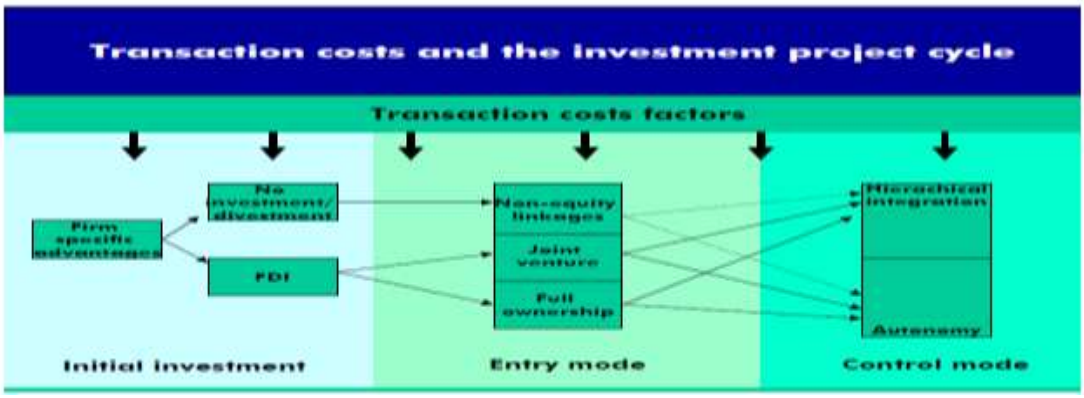
According to Hansen (1998) the common application of the transaction cost is to explain the choice between markets and hierarchies in a national context. The transactional cost logic has been used successfully to explain why market failures will encourage firms to create hierarchies across boarders and this has been associated typically with FDI: that is, investment or activity undertaken in a foreign country with the aim of obtaining management control of that

activity. Multinationals adopt a hierarchy for reducing transaction costs. MNEs, through FDI, create opportunities for interactions in the host country for the appropriate mode of production and distribution patterns. Such interactions increase the gains from trade benefiting the interacting parties. Hymer (1960) and Kindleberger (1969) have treated FDI as a way to maximize the monopoly position for internalizing the reduction of transaction costs and internalizing non-pecuniary externalities. The distinction between pecuniary and non-pecuniary externalities is made on the basis of the type of market. If the market is of the structural imperfections type, where the monopolists differentiate their products, the pecuniary externalities arise out of the monopolistic behaviour of the participating companies. The non-pecuniary externalities occur in natural-type market imperfections. For the transaction cost approach, it is not necessary for a firm investing abroad to possess monopolistic power. It needs the market to be of such a type as to make hierarchical co-ordination possible, thereby reducing the cost of production as compared to co-ordination through the price system.

Buckley and Casson (1985) argue that the choice of an investment in an economy may be determined by the relative efficiency and the comparative cost borne by the MNC and the relative financial benefit they will gain by utilising their core capabilities internally. This may occur when information in the home country is scarce and markets are oligopolistic and the business cycle at home is not favouring the activities of the MNC. In this regard, FDI becomes a means to reduce in efficiencies and waste. In such a case, by having interest abroad and more independence, the firm reduces the uncertainty and avoids the dangers of competition (Buckley and Casson, 1985).

The transaction cost analysis is relevant to this thesis because it aims to answer the question as to whether or not a bank chooses to undertake FDI. It also explains the optimal control mode over a foreign activity at different stages in the investment project cycle. Figure 2.1 shows transaction costs and the investment project cycle for a bank. The decision as to whether to undertake FDI or not is stage one, the decision as to the degree of control with foreign investment (entry mode) is the second stage and the decision on the deployment of resources for a specific activity is the third stage. At all three stages Hansen (1998) states that TNCs face a choice between hierarchies (controls) or markets and at all three stages, the costs of market transactions *vis-à-vis* hierarchic transactions constrain that choice.

Figure 2.1 Transaction costs and the investment project cycle



Source: Adapted from Hansen (1998)

2.7.2.5 Institutional theory

Institutions are created to pursue a particular endeavour, such as banking by a financial institution. To explain the meaning of institution, North (1990) defines institutions as the rules of the game in a society or, more formally, are the humanly devised constraints that shape human interaction. Consequently, these institutional rules structure incentives in human exchange, whether political, social or economic. Institutions can either be formal such as constitution, laws etc., or informal such as conventions, customs and so on. They are created to reduce the uncertainty associated with human interaction and exchange, and to ascertain what individuals should and should not do under different conditions in a way of providing societies with predictable frameworks of interaction. This framework for the purposes of this thesis looks more in to the formal rules. North (1990:47) "formal rules include political (and judicial) rules, economic rules and contracts. The hierarchy of such rules, from constitution, to statue and common laws, to specific by law and finally to individual contracts defines constraints from general rules to particular specifications". Therefore, this theory suggests three principle aspects of the institution (1) political rule, (2) economic rules and (3) contracts.

According to North (1990) institutions affect economic activities because they affect transaction and transformation costs. Transaction costs are those cost with economic exchange and consist of (1) the cost of measuring the values of what is being exchanged (2) the cost of protecting rights, and policing and enforcing agreements. These cost arise because of the incomplete information about the behaviour of the other party of economic exchange. Without institutions there

would be uncertainties over the behaviour of the other parties of economic exchange. One party may cheat or deny agreements if it finds it necessary to do so. As a result of uncertainties a risk premium will be included in the transaction cost.

Countries with weak institutions pose challenging problems for direct investment by firms. According to Khanna and Palepu (1997) the notion of "institutional void" has been used to describe the countries, especially in the developing world, that lack the basic regulatory and judicial institutions that allow economic activity to flourish. These voids can range from weak political structure and close labour market to a controlled media and underdeveloped social systems that encounter stringent transactions (Khanna *et al.* 2005). In its entirety even if an organization is willing to adapt its business model to comply with a country's institutional context, weak institutions presents costs in both the product markets and input markets. Therefore, any organization willing to locate will always think twice before locating where the institutional voids are overwhelming.

Henisz and Delios (2002) and Guillen (2002) draw on the institutional theory to show that social influence factors play an important role for FDI decision. Institutions have potential effects on FDI inflows and that countries with good institutions will *ceteris paribus,* attract more FDI. As mentioned earlier institutions play this role because they affect transaction and transformation cost. MNEs are very sensitive to the institutional quality of host countries. Dunning (1998) argues development in the global economy have changed the way MNEs perceive the location advantages they seek, making them increasingly prefer locations which offer the best economic and institutional

facilities. It is important to note MNEs have moved from the traditional location advantages such as labour cost, availability of natural resource to creative location advantages which include knowledge-based assets, infrastructure and institutions (Narula and Dunning, 2000 and Estrin *et al.* 2004).

2.8 The radical explanation of FDI

Orthodox economists' view of MNCs is that they are the most efficient vehicle for both the optimal allocation of resources and the efficient distribution of products internationally, but radical economists see MNCs as an instrument of economic exploitation, political instability (especially in LDCs and environmental damage) because of the relentless search for profits and enormous economic and political power. According to Hobson (1997) FDI is needed to counteract inadequate consumption caused by uneven distribution of income and wealth in capitalist economies. While Lenin (1967) regards FDI as a complementary activity to exports, the development of capitalism results in the creation of large international monopolies on the one hand and the concentration of financial and industrial capital on the other.

According to Ietto-Gillies (2012) these monopolies colonize the world and use FDI as an instrument in the process. Although the bleak picture painted of FDI is rather different today, there are some similarities relating to FDI activities and MNCs at the beginning of the 20th century and the world today. These are: firstly, the bulk of FDI is undertaken between developed countries and LDC's. Secondly, there has been a shift from manufacturing towards services in the

composition of FDI which does not help the cause of LDCs wishing to industrialize. Thirdly, even in manufacturing, the main characteristics of FDI activities seem to be technology and managerial capabilities which are factors lacking in LDCs (Kozul-Wright and Rowthorn, 1998). Fourthly, despite the sharp recovery of FDI flows going into LDCs, they have been heavily concentrated in only a few countries. Finally, despite tremendous competition among countries, developed countries and LDCs alike aim to attract significant FDI flows to solve their economic problems.

2.9 Location characteristics of FDI

The literature on FDI location factors covers a wide and broad area as discussed earlier. The factors that are traditionally perceived to influence the location decision of multinational enterprise are known as classical variables; these include the size of the market that the enterprise is entering. Recent research has focused on all kinds of location factors, which are known as the agglomeration reason for the FDI location. The literature on location is characterized by loose terminology: McCann and Sheppard (2003) formally distinguish an agglomeration from an industrial complex and social network (the latter is often referred to as a *cluster*). An agglomeration involves firms in competition that are co-located in an urban area. Jones and Wren (2006) state that the external effect or externality, possibly in the form of *spillovers*, rise in an agglomeration economy and may encourage a foreign-owned firm to set up in an area where firms in a similar activity are present. This study adopts the following location characteristics: market size and growth, labour market, macroeconomic policy, infrastructure and political and legal factors, to investigate the impact of foreign entry in the banking sector (see appendix II - review of the relevant literature on FDI). The reasons why these characteristics were chosen are fully explained in the conceptual framework chapter.

2.9.1 Market size and growth – literature on market-related FDI concludes that market-related factors have the most important influence amongst the location factors of FDI (Cheng, 1996). According to Scaperlander and Mauer (1969:560) FDI responds positively to market size *once it reaches a threshold level that is large enough to allow economies of scale and efficient utilisation of*

resources. The importance of market size has been confirmed in many previous empirical studies (Kravis and Lipsey, 1982; Schneider and Frey, 1985; Wheeler and Mody, 1992; Tsai, 1994; Loree and Guisinger, 1995; Lipsey, 1999; Wei, 2000).

The theory states that FDI is attracted to a large market in order to exploit economies of scale to earn higher returns on investment (Aseidu, 2003). In support of the positive effect on FDI location, a large market will attract firms that have outgrown their own domestic market and/or are looking to expand into other markets to gain greater market share. Furthermore, the expansion apprehension into other markets to gain greater sales or market share has influenced MNEs to enter into large markets to overcome the maturity of home markets. This implies that market growth may influence FDI location, as firms enter markets where they can grow. The most important economic fundamentals discussed in numerous publications are market-related variables that may affect market-seeking FDI (Aseidu, 2003). The two main factors also associated with this are current market size and potential market; the influence of the market size on efficiency and market-seeking FDI in the literature has been positive. Musila *et al.* (2006), using cross-sectional data in 138 countries over the period 1998-2000, found evidence that supports the importance of the market size for FDI location decisions. Authors such as Wheeler and Mody (1992), Tsai (1994) and Wei (2000) have found significant positive effects in relation to market size, measured by real GNP *per capita*, on FDI. Wheeler and Mody (1992) found evidence that market size drives foreign investment, especially in developing countries. They used data from 62 countries for the period 1975-1978 and 51 countries over the period 1983-1986. Empirical evidence supports the positive

influence that market size attracts FDI. Using the market size hypothesis, multinationals seek large markets in order to minimize costs, including fixed costs, and exploit the economies of scale (Aseidu, 2003). Chakrabarti (2001) finds a positive effect of market size, measured by GDP *per capita*, on FDI. Using extreme bound analysis with section data on 135 countries, the same findings are reached. Musila *et al.* (2006), using cross sectional data on 138 countries with extreme bound data, found evidence to support market size as measured by real GDP on FDI.

2.9.2 Labour market – the availability of labour can provide a positive effect on FDI location, as a country with a large amount of labour provides the investor with a pool of participants in a potential workforce from which it can choose. Results from historic empirical studies on labour costs and FDI location characteristics have varied. Authors such as Porter (1990), Lall (2001) and Dunning (2004) have found that higher labour costs deterred FDI flow; while Chen (2006) found a statistically insignificant correlation between the inflow of FDI and labour cost. Wei *et al.* (1999), Fu (2000) and Cassidy (2002) found a negative correlation between effective wage and FDI flow; while Cheng (2006) found a positive correlation between the effective wage and FDI flow in China. It is argued that a country with lower labour costs plus higher productivity will attract FDI while a country with lower labour cost as well as lower productivity will not (Chen, 1996). Dunning (1993) suggested that MNEs that are motivated by efficiency seeking require an experienced labour force, which tends to be associated with higher wage levels. By contrast, Ussi and Wei (2011) assert that MNEs that are motivated by efficiency seeking tend

to require lower cost labour. According to Mudambi (1995), the cost of labour will have an inverse effect on investment, while labour will yield more productivity gains. Hill and Munday (1991) claim that the cost of labour is often used in the study of FDI location to test the effects of the labour market, but this is often mistaken as it also reflects the level of productivity. Both productivity measures and labour costs should therefore be used in the discussion on FDI. Javorcik and Spatareanu (2004) analysed 25 Western and Eastern European countries using firm level data and reached several conclusions over the labour market characteristics of FDI. In their study (2004:620), it is recognized that *other things being equal, the more flexible the host country's labour market is relative to that in the source country, the higher the probability of FDI taking place* – it is important to highlight that the authors discuss flexibility in relative terms and not in absolute terms, unlike other economists. According to Jones and Wren (2006) the degree of labour unionization is sometimes used to measure the state of the labour market, whether it is *strong* or *weak*, but this can have a detrimental effect on the location. Strong unionization can lead to high wages and stricter rules and regulations on a firm, which makes it a less attractive location for the firm to enter. The industrial relations atmosphere in Ghana has generally been peaceful in recent times (Sarpong and Otoo, 2009). The rate of unemployment can be used to measure labour availability. Host countries with high unemployment levels will have a larger labour force for potential investors to choose from. High unemployment gives an indication that the workforce is eager to look for work and once this is achieved, they put in more effort to keep their jobs and also are most likely to accept lower wage rates; this makes it even

more attractive to FDI (Ussi and Wei, 2011). Dunning (1993) supports the debate that the unemployment rate has a positive effect on FDI location. In contrast, Lankes and Venables (1996) argue that a country with a high rate of unemployment can be a deterrent to FDI inflow. Noorbaksh *et al.* (2001) argue that other labour market conditions, such as hiring and firing costs and general employment legislation, may have an impact on the location. Aseidu (2002) finds that the level of human capital as a significant characteristic of location advantage of a host country plays a key role in attracting FDI inflows.

2.9.3 Macroeconomic policy – this characteristic has been discussed in numerous publications. Hunya (2004) argues that changes in the relationship between growth rates in different countries impact on the pattern of international capital movement. Capital moves from countries experiencing a downturn in their economic growth towards countries with higher economic growth rates (Lall 2001 and Shapiro *et al.* 2001). Lipsey (2000) confirmed in his work that there is a positive relationship between economic growth in the host country and annual inward FDI. Generally, there is substantial support in the literature for the FDI and economic growth causal relationship as well as the economic growth and FDI causality (Porter 1990, Shapiro *et al.* 2001 and Hunya 2004). The large economies with rapid economic growth provide multinational companies with opportunities to generate greater profits and therefore become an inducement to FDI inflow (Chen, 1996 and Ussi and Wei, 2011). In the same vein, it is acknowledged in this thesis that small economies with weak growth rates are unable to attract significant amounts of FDI and *vice versa* (Porter 1990). According to UNCTAD (1998) monetary and fiscal

policies reflect economic stability and this influences the location destination for FDI. The most common macroeconomic effects that have been well publicized are on corporate tax and exchange rates. Given that the exchange rate policy in the host country is related to the economic environment, it reflects the economic stability in the host country, and may affect the FDI location decision. Authors such as Cassou (1997) and Kemsley (1998) claim that a high tax rate should have a negative influence on FDI location choice as it reduces the profit that can be made, but the effect of the exchange rate is more complicated. Depreciation of the host country's currency will make it cheaper for a foreign firm to set up production in that country, but it will also reduce the value of repatriated profit. FDI does not always involve the transfer of currency. In the broad definition, the *investment* can be a firm specific asset such as knowledge. A strong macroeconomic policy is a key factor that would affect an FDI location decision (Aliber, 1993). According to Wheeler and Mody (1992) there are positive relationships between the rate of growth of the host country and the FDI inflow. Inflation has a huge effect on the quality of the macroeconomic indicators of the host country. Schneider and Frey (1985) claim that high inflation in host countries will have a negative effect on the FDI location, especially in developing countries. Mmieh and Frimpong (2004) argue that there is no evidence to support the idea that FDI inflow will be influenced by the high purchasing power of the host currency. Instability in macroeconomic variables, as evidenced by the high incidence of currency crashes, double-digit inflation and excessive budget deficits, has also limited the SSA region's ability to attract foreign investment. Evidence based on African data suggests that countries with high

inflation tend to attract less FDI (Onyeiwu and Shrestha, 2004). Exchange rate is another common variable involved in the analysis of the characteristics of FDI. According to Hunya (2004) both the level and the variability of exchange rate count. The way the level of exchange impacts on FDI flows depends on the type of investment in consideration (Shapiro *et al.* 2001). A depreciation of the host country's exchange rate will have a positive influence on the flows of horizontal FDI it receives through reduced cost of capital (Ussi and Wei, 2011). According to Shapiro *et al.* (2001) an appreciation of the local currency increases the flows of horizontal FDI because the local consumers have a higher purchasing power. Appreciation of a local currency therefore has a negative effect on vertical FDI inflows because items produced locally are becoming expensive abroad.

2.9.4 Infrastructure – according to Asiedu (2003) infrastructure is not only an important pillar of economic development but, also, impacts on the ability of businesses to operate successfully. Most of the studies that use disaggregated data to explore how infrastructure affects FDI in developing countries have focused on China and its provinces (Cheng and Kwan, 2000; Sun et al. 2002 and Bank, 2006). Only a small number of studies include developing countries other than China. Deichmann et al. (2003) in a study of 293 foreign firms' location in Turkey find that infrastructure development increases the probability of MNE location. A well developed infrastructure in host countries is expected to improve the production possibilities of the domestic industries, develop greater inter-sectorial linkages within the economy and provide a platform for the efficient distribution of goods and services. This aspect of national development is critical to the

efforts of small countries to attract FDI (He and Laing, 1999). The term infrastructure in the host country refers to the quality of roads, railroad, dependable energy and telecommunication availability, credit and banking facilities and other financial, legal and transport systems. Cheng and Kwan (2000) also found that cost and quality of infrastructure is a very important factor influencing FDI in China. Good infrastructure is a necessary condition for foreign investors to operate successfully, regardless of the type of FDI. The infrastructure helps FDI in host countries to lower their setup costs for new investments (Cheng and Kwan, 2000). The importance of the infrastructure on the FDI location decision is dependent on the type of industry as each industry has a different priority regarding infrastructure levels. Cheng (2006) states that one aspect that captures significant attention in attracting FDI is the existence of a highly developed transportation network. The level of industrialization is expected to be linked with a high level of FDI, as a country or region that is highly industrialized will have a large number of firms and the clustering of a specific industry or industries. This increasingly gives rise to the possibility of beneficial spillovers. Wei *et al.* (1999) attribute this to the agglomeration of economies. Firms willing to locate to other countries would prefer to locate in countries with a high agglomeration. Investors in choosing where to locate imitate past investment decisions made by other investors. In locating to where others are, they benefit from investors already in the same place. Loree and Guisinger (1995) believe that the common sources for these positive externalities are knowledge spillovers, specialized labour and intermediate inputs. The theory of agglomeration economies suggests that once countries attract the first mass of investors, the process

would be self-reinforcing, without the need to change policies. When the agglomeration economy is present in the host country there is, therefore, the expectation that the current FDI will be a good indication for the future flow of FDI even after considering the classical factors of comparative advantage (Asiedu, 2002). Foreign investors feel more inclined to invest in a location with existing foreign investors. This also reduces the uncertainties when investors are making potential decisions based on location factors to invest abroad.

2.9.5 Political and legal – empirical evidence on political factors has also given mixed results (Disdier and Mayer, 2004; Daude and Stein, 2007 and Du *et al.* 2007). Studies on FDI in developing countries find political factors to be significant characteristics of investment (Levis, 1979; Schneider and Fry, 1985; Wei, 1997). Mody and Wheeler (1992) find that political factors are not important for the FDI location factor and they rank them low in comparison with other characteristics of FDI. Xu (2012) argues good institutions play a crucial role in attracting FDI to developing countries. The prospect that foreign investors get return on their investments is essential in their decision to invest in a country or not. The literature on political factors associated with location show that most of the empirical work is limited (Stevens, 1969; Weigel, 1970; Root and Ahmed, 1979; Levi, 1979) and even if discussed, the argument usually is centred on specific political events in those countries. Research indicates that both political and legal institutions influence cross-national business practices; as MNCs expand around the world, the host country's legal system plays an important role in the operations (Flores and Aguilera,

2007). Henisz and Delios (2001) aver that the credibility of the host country's government policy may drive away foreign investors. The host country is likely to have distinct policies on trade, protectionism, enactment of laws to prevent monopolies, and the existence of an enforcement mechanism to honour contracts, amongst others. Protectionism may encourage FDI inflows and may increase the level of investment in the host country to minimize the effect of the protectionism on its investment (Blonigen and Feenstra, 1996). Host countries may use investment policies to both encourage and discourage the flow of FDI (Moosa, 2002). Incentives such as financial and tax incentives have been used to encourage foreign direct investment. Similarly, restrictions such as unnecessary delays in the processing of documents to issue a licence for investment might also be a hindrance. Political instability considerably affects the location decision negatively and reduces the inflow of FDI (Mellahi *et al.* 2003). Moosa (2002) argues that political risk may occur when surprising changes in the legal and fiscal frameworks in the host country transform the expected return for the foreign investor. This provides an edge of uncertainty for investors and therefore discourages the flow of FDI. According to Aharoni (1966), investors report that political instability is the most important factor influencing the FDI decision. Political stability is a requirement for FDI to occur but is not a strong motive for FDI (UNCTAD, 1998)

2.10 Summary

Chapter 2 has presented a review of the relevant literature on FDI. Various definitions of FDI have been discussed which provided a clear opening to the discussion of a historical pattern of FDI pre- the First World War, the inter-war period up to the Second World War and the post war period leading to the literature on globalization. Types of FDI based on both ownership and investment motives were discussed followed by the rationale for FDI. It was important during the review of prior studies on FDI to discuss the theoretical framework for FDI, classifying them into traditional and modern theories to help focus the study. Given that FDI remains an interesting subject for researchers from different disciplines it was important to explain FDI from a radical standpoint. To achieve the main objective of the thesis, location characteristics of FDI were discussed in detail. In chapter 3 of this thesis the author provides background information which includes the socio-political outlook of Ghana, economic development and policy for the period 1950–1980, adoption of policies under the economic recovery program (ERP) and structural adjustment programmes (SAPs), investment climate in the SSA region (particularly Ghana), FDI trends on global, African, SSA and Ghana economies in the last 10 years and, finally, a discussion on the importance of the banking sector.

Chapter 3: Background information

3.0 Introduction

This section of the thesis introduces the background information on the economy of Ghana. The socio-political outlook of Ghana is discussed leading on to the adoption of Economic Policy (ERP/SAP). The scene is set to discuss the investment climate in the SSA region particularly Ghana and looking at the trends of FDI from the global, African, SSA and Ghanaian perspectives.

Over the years the emergence of a shift from controlled economic policy régimes to market orientated and private sector led economies in many SSA countries such as Ghana has resulted in great strides being made in improvements in their policy environment. The nature of economic reforms in Ghana can be classified into two broad categories. Firstly, post-colonial reforms from 1950 to 1970 which were focused on disbanding the colonial ownership system and the formation of new policies aimed at achieving rapid economic growth. According to Mmieh and Asimenu (2012) some of the financial reforms repositioned Ghana for financial sector liberalization, which was seen as a necessary condition to achieve the economic growth objective. The second wave of reforms from the mid-1980s focused on improving the institutional and regulatory environment to assist financial sector development. The growth of the banking sector is primarily due to deregulation of the banking sector, economic and political stability, and the government's private sector initiative mentioned earlier. This transformed the sector into a business-friendly

environment through which to attract significant capital injection and is discussed in detailed.

3.1 Historical development of the Ghanaian economy

The name Ghana was created when the British granted political independence to the then colony, the Gold Coast. The British ruled and controlled the country from 1844 and through colonial pillage, turned their so-called model colony into a *periphery* country, unscrupulously exploited by the *core* country (Omaboe, 1966; Howard, 1978; Onimode, 1982). The result of the exploitative activities of the colonial government itself and European firms (especially cocoa buying, banking, shipping and mining) was that when the British finally pulled out of Ghana in 1957, they left behind a country which bore all the most important features of underdevelopment. In particular, it suffered from an acute form of structural dislocation. Production and consumption were not integrated within the country, but through external trade (Konadu-Agyemang, 2002). According to Kay (1972), the colony exchanged commodities such as cocoa and gold, which it produced but did not consume in exchange for manufactured goods that it did consume, but in many cases could not produce itself.

According to Konadu-Agyemang (2002), despite all the exploitation and symptoms of underdevelopment notwithstanding, the British probably left Ghana in better shape than any other country in sub-Saharan Africa. Ghana's primary material export-based economy was well established. At independence in March 1957, Ghana was the world's leading producer and exporter of cocoa, exported 10% of the

world's gold and had foreign reserves of £200 million (equivalent to three years' imports). Furthermore, it had one of the best infrastructural systems in Africa, the most educated, skilled and experienced workforce in sub-Saharan Africa, and well-formulated development plans (Huq, 1989; Roe and Schneider, 1992; Werlin, 1994). By all criteria, Ghana was probably much better endowed than most developing countries, and certainly had better opportunities to develop than any other country in sub-Saharan Africa. Ghana's *per capita* income of £50 in 1957 put it on a par with South Korea (Werlin, 1994), and it was comfortably placed among the *club* of middle-income countries. In 1960, Ghana's *per capita* national income of £70 was still higher than that of Nigeria (£29), India (£25) and Egypt (£56), and the growth rate was around 6% (Huq, 1989). According to Apter (1972:52), Ghana was:

> *Richer than most African countries, carefully groomed for independence, with trained cadres exceeding those of far larger countries, without racial minority problems, having inherited a good and expanding educational system, Ghana is regarded as having the resources, manpower and moral and spiritual qualities to set the pace and tone of political development in all Africa.*

The bright and promising star of Africa, however, did not maintain its gleam for long. By the middle of the 1960s, Ghana was teetering towards bankruptcy. The growth rate of GDP had fallen to 0.4%; foreign reserves had dried up and the nation was in serious debt (US $1 billion); the real value of the minimum wage had dropped by 45%; and the public sector earnings and industrial earnings had fallen by

20% and 25%, respectively (Huq, 1989; and Rimmer, 1992). Furthermore, the producer price paid to cocoa farmers had decreased by 66% (Fitch and Oppenheimer, 1966), and the lower half of income earners shared one-third of the national income as against one half in 1956. According to Fitch and Oppenheimer (1966), Ghana's economic woes continued through the rest of the 1960s into the 1970s and early 1980s; orchestrated in part by political instability and corruption. Between 1970 and 1983, import volumes declined by over 33%, real export earnings fell by 52%, while domestic savings and investments dropped from 12% of GDP to almost zero; an unprecedented number of Ghanaians – artisans, teachers and medical professionals, as well as unskilled workers – left the country (Fitch and Oppenheimer, 1966). By the early 1980s, the inflation rate was in excess of 100%, the *per capita* GDP had fallen from its 1960 level of US $1009 to $739, and the nation was going through one of the worst droughts and famines in its history. As if these troubles were not enough, the Nigerian government suddenly repatriated well over one million Ghanaians whose arrival worsened the already chaotic socio-economic environment (Huq, 1989; Chazan, 1991; Rimmer, 1992; Werlin, 1994; Brydon and Legge, 1996). While it is difficult to pinpoint the exact factors behind Ghana's fall from a promising middle-income economy to a country teetering on the edge of bankruptcy the following are attributed to the fall: economic mismanagement; over-regulation; inability to control inflation; productivity disincentives; an bloated and mismanaged public sector; over-subsidised social services (education and health in particular); overvalued currency; political instability; corruption; inept leadership; acts of God; unfavourable terms of trade;

and, clientelism - amongst others (Huq, 1989; Chazan, 1991; Rimmer, 1992; Werlin, 1994; Brydon and Legge, 1996).

3.1.2 Socio-political outlook of Ghana

In the face of the global economic crunch and fierce competition for foreign direct investment, Ghana has endeavoured to excel in its quest to attract inflow investments (GIPC, 2009). The economy of Ghana has started to show some signs of stabilization, following the widening of fiscal and external deficits in 2008 as demand pressures lessen. The government has instituted a number of measures to stabilize the situation, including an ambitious budget and medium-term macroeconomic framework, financially supported by the World Bank and the IMF (The Government of Ghana, 2010). Greenway *et al.*, (2001) claim that governments all over the world invest substantial public funds to attract inward FDI, using a range of instruments such as tax allowance, duty drawbacks, investment allowance, grant and foreign aid and so on.

Given the government's influence in attracting FDI flows to Ghana this section presents an analysis of the country's socio-economic and political strengths, weaknesses, opportunities, and threats (a SWOT analysis). According to Gupta and Govindarajan (2000), a firm typically initiates a SWOT analysis by performing an environmental scan, a systematic collection of data about elements of the firm's external and internal environments, including markets, regulatory issues, competitors' actions, production costs and labour productivity. By making decisions to invest abroad, firms are influenced by a wide

constellation of economic, political, geographic, social and cultural issues (Assanie and Singleton, 2002). According to BMI (2009) the SWOT analysis results for Ghana are as follows.

Strengths – the country is widely regarded as a rapidly maturing African democracy, with peaceful elections and transitions of power since the multi-party system was introduced in 1992. The constitution prevents undue power concentration in any one ethnic or religious group. A free media climate has stimulated open and lively debate and aided the democratization process. Relatively strong ethnic cohesion, in large part due to the tradition of secondary boarding schools, which mix children from all ethnic groups, has helped keep tensions – common elsewhere in Africa – at bay. Ghana's participation in much peacekeeping across the continent has bolstered its image as a pan-African rôle model. Ghanaians residing abroad are likely to inject a fresh external dynamic to domestic politics, after the passage of the Representation of the People's Amendment Bill, giving them the right to vote in national elections.

Weaknesses – corruption is still a concern, both in the private and public arenas. The institutional architecture remains relatively weak, impeding the effective execution of policy. Intra- and inter-party squabbling is common, and serves as an impediment to constructive debate.

Opportunities – forthcoming oil revenues could be used by the authorities to redistribute wealth among the populace. Ghana could strengthen its institutional structures and accelerate the decentralization of power. Greater stimuli for a civil society, with

more intense monitoring of incumbents would also aid in greater transparency.

Threats – potential spillover effects (such as refugee inflows) should conflict return to neighbouring Côte d'Ivoire. Poverty and health problems are rife with HIV/AIDS (and on-going problems with issues such as the waterborne Guinea worm disease) remaining as threats. An inability to close the developing rift between the north and south (urban and rural areas) could lead to neighbouring tensions.

Ghana is well endowed with natural resources and has roughly twice the *per capita* output of the poorest countries in West Africa (CIA, 2010). According to Aryeetey and Kanbur (2004:40), *the relationship between economic growth and the most social concern, poverty, has been unclear. The perception is that the number of people living below the poverty line has not changed in tandem*. Given the sustained *per capita* growth accompanied by some measured reduction in income poverty, the level of income remains high. The reduction in income poverty has been fairly reasonable and changes in the non-income dimensions are not insignificant. Oduro *et al.* (2004) state that there are also indications that there have been significant movements in and out of poverty, and the perception that poverty is worsening is a fact.

3.1.3 Adoption of economic policy (ERP and SAP)

Structural adjustment refers collectively to the set of economic reforms attached, as conditions, to certain loans from the International Monetary Fund (IMF) and the World Bank to developing countries. Adjustments characteristically include a combination of cutbacks of government expenditure, currency devaluation and measures to increase the generation of foreign exchange. Dejong (1990) makes a distinction between *stabilization* and *adjustment*. *Stabilisation* aims primarily at correcting balance of payment problems – for example, reducing imports and cutting government expenditure. *Structural adjustment*, on the other hand, involves longer-term and more fundamental structural changes to the economy. The IMF is mandated to provide short-term financing to developing countries and therefore is involved primarily in stabilization measures, whereas the World Bank typically provides long-term finance and has become increasingly involved in structural adjustment lending. The distinctions between *stabilization* and *adjustment* and the rôles of the two international financial institutions have become very blurred and there has been a shift towards longer-term lending generally to support economic reform.

In 1983 Ghana adopted the IMF and World Bank assisted Structural Adjustment Programme to reverse several years of economic downturn through trade liberalization and development (Mmieh and Owusu-Frimpong, 2009). While structural adjustment may differ from country to country and region to region, its common features include the following: liberalization of foreign exchange, import controls, withdrawal of subsidies, fiscal and budgetary discipline, and greater

hospitality to foreign investors through privatization and trade liberalization. Structural adjustment is therefore a process whereby a national economy is opened through a combination of demand and supply side policies (Ibhawoh, 1999). It is an attempt to redirect the economy towards economic growth by addressing internal and external imbalances. This specific set of policies is linked to the conditional loans of the IMF and the World Bank. The influence of both institutions is therefore often felt in every SAP. Just like other countries, the Provisional National Defence Council (PNDC), the government in power, implemented the SAP in stages. Between 1983 and 1992, Ghana implemented two major phases of the SAP. This is also referred to as Economic Recovery Program One (ERP I) and Two (ERP II). ERP I (1983-1986) was the first phase of the programme, which centred on resuscitating the economy. There were many goals in ERP I, but essentially it aimed at stabilizing the Ghanaian economy. Stabilization was intended to halt the downhill trend in the economy, particularly in the export and industrial sectors. ERP I aimed at increasing exports while discouraging imports. This stage is characterized by what Donkor (1997) describes as the PNDC's obsession with reducing inflation, and exchange rate liberalization as an incentive to export. ERP I was an effort to restore fiscal discipline, encourage savings and investments, and to lessen Ghana's domestic and international imbalances (Rothchild, 1991).

ERP II (1987-1992) focused on consolidating the gains made in ERP I. This phase attempted to integrate stabilization and economic reform. Medium- to long-term goals were therefore set to achieve the following: an economic growth rate of about 5% per annum through

increasing investment from about 10% of the national income to 25%, increasing savings from 7% at the end of ERP I to about 15% by 1990, public sector reform through the Public Enterprise Reform Program (PERP), reduction in government expenditure, privatization of non-performing state-owned enterprises, and establishing a programme to address the social cost of adjustment otherwise known as Programme of Action to Mitigate the Social Costs of Adjustment and Development (PAMSCAD) (Donkor, 1997). There is no doubt that the above-mentioned measures were prudent but very risky for any Ghanaian government. According to Azindow (2005), the state-centric approach to development pursued in the 1960s and 1970s made the state the *mother and father* of every citizen. The practice of jobs for the boys, and client-patron relationships were the major features of state-owned institutions. Most state corporations were created to avoid undue political pressures. Thus, these institutions were not intended to raise revenue, but rather to provide employment and to render basic and essential services. The absence of profit motivation made them inefficient as commercial entities. The government did not only fail to raise revenue through state enterprises, but rather had to finance major aspects of their operations. By the 1980s, state-owned enterprises continued to drain about 13% of the government's expenditure. Related to privatization is public sector reform, particularly reform of the civil service. The civil service was earmarked for reform because it was a classic example of incompetence and inefficiency. Since the 1960s, the civil service in Ghana has been characterized by pervasive corruption, mismanagement and overstaffing. Although privatization and civil service retrenchment are necessary in reducing the government's role

in the economy, they constitute a recipe for political disaster, particularly in a central planning environment. Boafo-Arthur (1999) reminds us that those Ghanaian leaders who indicated their intention to implement such rigorous measures were ousted by military coup d'états.

The overriding purpose of the ERP was to stabilize Ghana's economy and to improve its trading position in the global economy. The official ministry of finance document listed the following as its main reasons: to initiate the devolution of industry shares to the private sector. It was intended as a stabilization package, designed specifically to compress government expenditure from the 1982 level of 10.2% to 8.6% of GDP; adjust the exchange rate through discrete devaluation of the Cedi; abolish domestic price controls; mobilize government revenue through broadening the tax base and strengthen tax administration control inflation; restore overseas confidence; reverse declines in production, particularly in the agricultural sector; rehabilitate the country's decayed social infrastructure; stimulate exports; curb the consumption of luxury imports; mobilize domestic and external resources; and, to restore living standards (Bank of Ghana, 2007).

3.1.4 Investment climate in the SSA region, particularly Ghana

> *An important component of the ERP program was the Financial Sector Adjustment Program (FINSAP). The Ghana financial sector was deregulated under an adjustment program launched in 1996. The financial sector reform was implemented to create an investment climate that gives foreign investors the confidence to invest in the country* (Mmieh and Owusu-Frimpong, 2009:372-373).

The Ghana Investment Promotion Centre (GIPC) Act 478 provides guarantees to all enterprises, including free transferability through authorized dealer banks in freely convertible currency of dividends and net profits attributable to the investment; payments in respect of loan servicing where a foreign loan has been obtained; remittance of proceeds (net of all taxes); and other obligations. In the event of sale or liquidation of the enterprise or any interest attributable to the investment, guarantees against expropriation of private investments are buttressed by the constitution (GIPC, 2002)

GIPC (2011) suggests that private investment is holding up in Ghana, in spite of the global recession and capital shortages. The BMI (2009) forecasted private investment was growing by 6.0% year on year in real terms in 2009, down from an estimated 10.0% in 2008, followed by 7.0% in 2010. With the discovery of oil in Ghana, this has been a major attraction for major international oil companies such as

Chevron, ExxonMobil, and Royal Dutch Shell. Outside oil, private investment remains robust, thanks to the attractive market that Ghana presents to foreign investors. Sentiments towards Ghana are very high at present, following a visit by President Barack Obama in July 2009. Obama chose Ghana as the only country he would visit in SSA on his recent trip, deliberately sending the signal that he sees the nation as well governed and praising Ghana for its strong democratic credentials. The overall impact of his visit has boosted investors' confidence in making Ghana a safe country in which to invest.

Furthermore, the stabilization of the economy following multilateral support gives rise to some hope. With the IMF and World Bank supporting the twin deficits on the current account and fiscal account, the risk for macroeconomic instability has declined. This is reflected in Ghana's US$2017 sovereign bond, which has seen its price rise over 30% since April 2009.

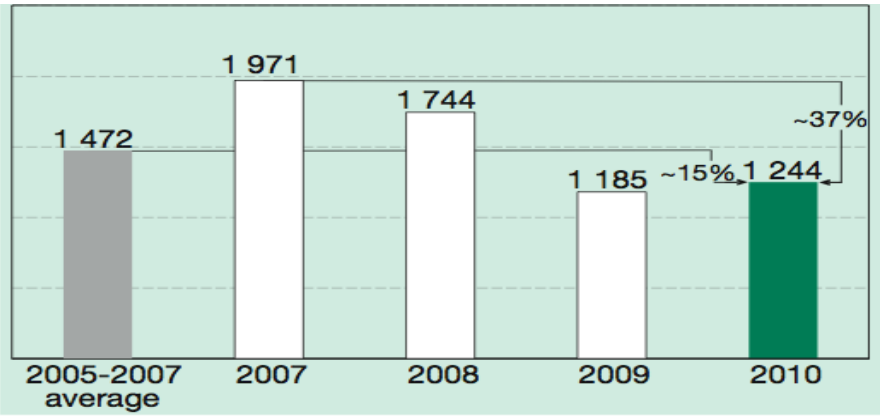
3.2 FDI trends

Recent years have witnessed increased globalization of the world economy, helped by technological developments as well as the liberalization and privatization policies which were followed by many governments in the 1980s. According to Dunning (1993) MNCs have assumed in parallel an increasingly important role in the global economy, accounting for 80% of world trade and an equal proportion of private R&D expenditure.

3.2.1 Global trends

Figure 3.1 shows global FDI inflows average for 2005-2007 and 2007-2010. Global FDI inflows in 2010 reached an estimated $1,244 billion a small increase from 2009's level of 1,185 billion. The moderate growth was mainly the result of higher flows to developing countries, which together with transition economies – for the first time – absorbed more than half of the FDI flows (UNCTAD, 2011)

Figure 3.1 Global FDI inflows, average 2005-2007 and 2007-2010 (Billions of dollars)

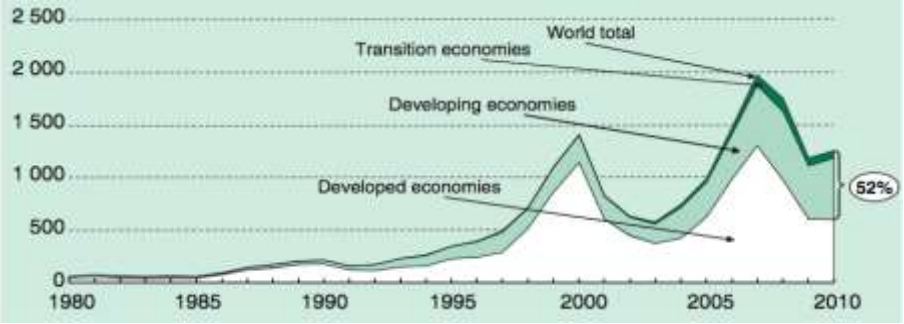


Source: UNCTAD (2011)

As may be seen from the figure above, FDI flows in 2010 remained at 15% below their precise average, and 37% below their 2007 peak, which clearly shows that world industrial production and trade are back to their pre-crisis levels. UNCTAD (2011) states that the moderate recovery of FDI flows in 2010 revealed an uneven pattern among components and modes of FDI. Cross border merger and acquisition (M&As) rebounded gradually, yet greenfield projects – which account for the majority of FDI – fell in number and value. Increased profits of foreign affiliates, especially in developing countries boosted reinvested earnings – one of the three components of FDI flows – while uncertainties surrounding global currency markets and European sovereign debts resulted in negative intra-company loans and a lower level of equity investment – the other two components of FDI flows. Whilst FDI by private equity firms regained momentum, that from sovereign wealth (SWFs) fell considerably in 2010. Figure 3.2, however, shows FDI inflows,

globally and by groups of economies, 1980-2010 (in billions of dollars) indicates that there was an even pattern between regions and sub-regions. The figure shows that in 2010 FDI inflows to developed countries and transition economies contracted further. In contrast, those to developing economies recovered strongly and, together with transition economies – for the first time – surpassed the 50% mark of global FDI flows

Figure 3.2 FDI inflows, global and by group economies, 1980–2010 (Billions of dollars)



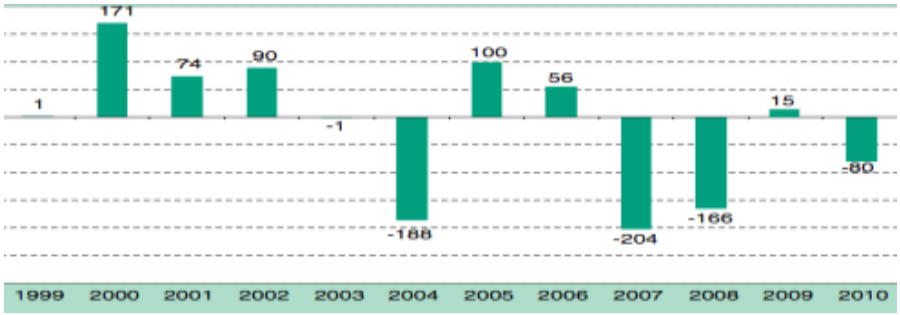
Source: UNCTAD (2011)

As shown in figure 3.2 above, more international production moved between developing and transition economies, a 52% increase from 1980 to 2010. TNCs are increasingly investing in those countries to maintain cost effectiveness and to remain competitive in the global production network. This is now mirrored by a switch in international consumption, in the wake of which market-seeking FDI is also gaining ground (UNCTAD, 2011).

Figure 3.3 shows the difference between global FDI inflows and outflows between 1999 and 2010. It shows that the discrepancies between reported global inward and outward FDI flows have been

significant. According to Fujita (2008) this is a major problem for policy makers worldwide, as sound policy analysis and informed policymaking on this issue requires reliable, accurate, timely and comparable data.

Figure 3.3 Difference between global FDI inflows and outflows 1999-2010 (Billions of dollars)



Source: UNCTAD (2011) Note Positive value means inflows are higher than outflows, and vice versa (1999 – 2010)

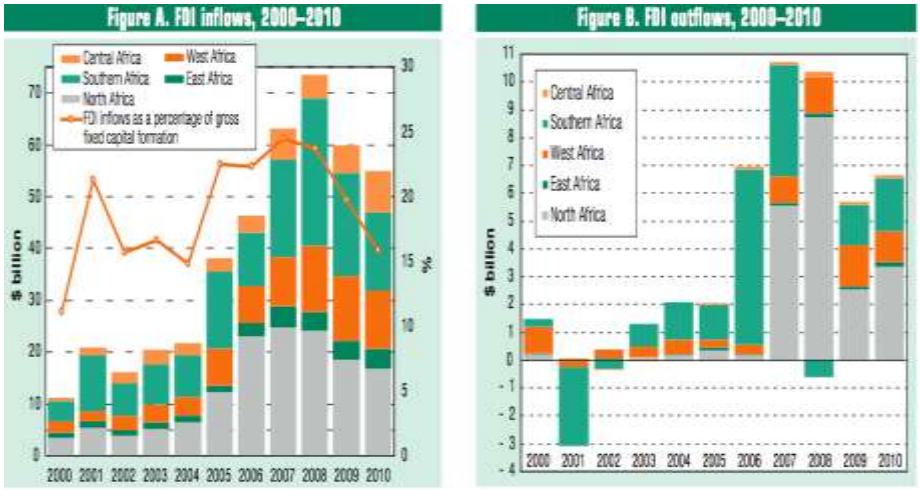
According to UNCTAD (2011) there are reasons for the discrepancies between global FDI inflows and outflows. Firstly, there are inconsistencies in the data collection and reporting methods of different countries. Some of the examples include different methods used by the host countries recording the same transactions, uneven coverage of FDI flows between countries and different exchange rates used for recording FDI transactions. Secondly, the changing nature (e.g., investment through exchange of shares between investors and acquired firms, investment from indirect source) and the increasing sophistication of FDI related transactions (that involve not only funds from parent firms, but also government loans and development assistance packages) often makes it difficult to attribute exact values to FDI. Thirdly, the distinction between FDI transactions with

portfolio-like behaviour and portfolio investments including hot money is blurred. Fourthly, the accuracy of FDI reporting may itself be a victim of global crisis, which causes increasing volatility in exchange rates, making an exact correspondence between home and host country reporting more uncertain (as differences in the timing of records may coincide with major exchange-rate differences). While the FDI recovery resumes, the worldwide demand for private production investment is increasing as public investment, which rescued the global economy from prolonged depression, declines in one country after another. With unsustainably high levels of public debt at both national and sub-national levels in many countries with nervous capital markets, governments must rein in their deficits and let private investment take over the lead role in generating and supporting a sustained recovery, thereby stressing on the importance of free movement of capital investment on a global scale.

3.2.2 Africa trends

In this section, FDI inflows and outflows are discussed and viewed both from the African continent context and also into regional blocs such as Central, Southern, Western, Eastern and Northern Africa. According to UNCTAD (2011) inflows to Africa, which peaked in 2008 amidst the resource boom continued their downward trend in 2010, although there were significant sub-regional variations. UNCTAD (2011) assert that for the region as a whole, FDI in 2010 stood at $155 billion, 9% down from 2009. Other developing regions performed remarkably better, leading Africa's share of FDI inflows among developing countries. Central and East Africa inflows of FDI increased in 2010 to reach $8 billion and $3.7 billion respectively. In figure 3.4 – (figures A and B) the inflows to larger recipients in Central Africa (Chad, Congo, The Democratic Republic of the Congo, Equatorial Guinea and Gabon) were mostly due to oil investment. The only significant instance of FDI in non-primary sectors was investment in the Democratic Republic of the Congo. East Africa's increase was a modest 2.5% as inflows to the sub-region's largest recipient, Madagascar, fell substantially to 19%. The two largest recipients, Uganda and the United Republic of Tanzania have tended to be stable economically in recent years and held broadly steady in 2010.

Figure 3.4 Africa's FDI inflows and outflows 2000–2010



Source: UNCTAD (2011)

According to UNCTAD (2011) Southern Africa inflows fell by 24%, one of the two major recipients in the sub-region. Angola, the region's largest recipient, fell by 15%. Although the decline was large the inflows achieved in 2008 ($16.6 billion) and 2009 ($11.7 billion), when there had been major investments in oil and agriculture, were perhaps not sustainable, considering that inflows to Angola had been just over $5 billion in 2003 when the civil war ended in the country. One of the problems for Angola has been that its oil industry production has exceeded Angola's OPEC quota.

In West Africa, the largest recipient had contrasting fortunes; inflows increased significantly in Ghana, but not enough to compensate for the large fall in Nigeria to reverse the down trend of the sub-region. According to the revenue watchdog, Revenue Watch (2011), Nigeria's uncertainty over the Petroleum Industry Bill, which is perceived as unfavourable for TNCs, and unresolved political problems in the Niger Delta, have discouraged foreign investors. Ghana, at the start of

major oil production has attracted the interest of the TNCs, some of which are seeking an alternative sub-regional source of oil to Nigeria. The continuing pursuit of natural resources by Chinese TNCs, and the increasing interest in Africa by Indian TNCs which have a significant presence in other sectors, could provide a boost. The emerging oil industry in Ghana represents, perhaps, the single most important positive prospect in the region.

3.2.3 SSA trends

With nine major regional trade agreements, SSA has one of the highest numbers of regional groupings in the developing world. These nine regional organizations, most with overlapping memberships, are: (1) the Economic Community of West African States (ECOWAS), with 15 members; (2) the West African Economic and Monetary Union (WAEMU) with eight members, all also belonging to ECOWAS; (3) the Common Market for Eastern and Southern Africa (COMESA), with 20 members; (4) the Southern African Development Community (SADC), with 14 members; (5) the Southern African Customs Union (SACU), with five members, all also belonging to SADC and two to COMESA; (6) the East African Community (EAC), with three members, two belonging to COMESA and one to SADC; (7) the Inter-Governmental Authority on Development (IGAD), with seven members in eastern Africa; (8) the Indian Ocean Commission (IOC), with five members, four belonging to COMESA and one to SADC; and, (9) the Communauté Economique et Monétaire de L'Afrique Centrale (CEMAC), with six members (Amaoko, 2002). The magnitude of intraregional FDI in Africa is limited, judging from

data on FDI projects, intra-regional FDI accounts for only 5% of the total, in terms of value, and 12% in terms of number. Figure 3.5 shows SSA was the second both in the value and number of projects and their shares in Africa's total, a cumulative from 2003 to 2010. The large share accounted for by FDI projects within sub-Saharan Africa suggests that South Africa investors are playing a large role.

Figure 3.5 Intraregional FDI projects in Africa: the value and number of projects and their shares in Africa's totals, cumulative 2003-2010

Total and intraregional FDI	Value		Projects	
	$ billion	% share	Number	% share
All intraregional FDI projects	46	5	570	12
North Africa to North Africa	8	1	65	1
Sub-Saharan Africa to sub-Saharan Africa	35	4	461	10
North Africa to sub-Saharan Africa	2	0.2	43	1
Sub-Saharan Africa to North Africa	0.2	0	1	0
Memorandum				
Total FDI projects in Africa	848	100	4 702	100

Source: UNCTAD (2011)

Figure 3.5 shows Intraregional FDI projects in Africa, the value and number of projects and their shares in Africa's totals, cumulative between 2003 and 2010. According to UNCTAD (2011), given the geographical proximity and cultural affinity, there ought to be a potential for diverse intraregional FDI in terms of industry and source countries. Bhinda and Martin (2009) state available country-level evidence indicates that the actual picture in this regard is, however, very mixed, for example Senegalese FDI in the Gambia is relatively diverse, covering finance, manufacturing, real estate, wholesale and retail. In contrast, outward FDI from Nigeria is concentrated in finance. In the United Republic of Tanzania, FDI from Kenya is diversified into various manufacturing, finance and service activities, while FDI from South Africa has mainly been in mining: the greater

value of investment projects in mining obscures the significant number of projects in other sectors.

3.2.4 Ghana trends

According to Ahortor *et al.,* (2005), the external sector has always been the key to Ghana's economic performance. Good economic performance in the late 1950s and early 1960s was coupled with good trade performance, while poor economic performance in the late 1960s and 1970s was associated with a severe retrenchment of the external sector. The balance of trade was generally positive in the early years of Ghana's existence, i.e., late 1950s and early 1960s; there were ample reserves to finance the current account deficits. Stresses and strains began to show in the mid- to late-1960s as the country used up its reserves to finance Kwame Nkrumah's ambitious development programme. These problems generally continued into the 1970s and the governments of the day, with the exception of the government 1969-1972, responded by placing a lot of restrictions on imports. These restrictions enabled Ghana to run trade surpluses, although the current account remained in deficit. One result of the restrictions was a severe fall in the importance of the trade sector: in 1983, exports had fallen to 4% of the GDP from 21% in 1970 (Ahortor *et al.,* 2005).

There was a fundamental change in economic policy with the introduction of the Economic Recovery Programme (ERP) in 1983. An important part of the programme was the Financial Sector Adjustment Programme (FINSAP). According to Mmieh and Owusu-

Frimpong (2004), the financial sector reform was implemented to create an investment climate that would give investors the confidence to invest in Ghana. A more liberal market orientated and therefore more outward orientated policy was introduced. As a result, many of the trade restrictions were relaxed. This led to an expansion of imports and exports with imports outstripping exports in subsequent years. Thus, we observe trade and current account deficits for the rest of the 1980s into the 1990s. Authors such as Jebuni *et al.,* (1994), Killick (1978) and Oduro (2000) claim that, because of the policy shift, Ghana was also able to attract more official loans, which, however, led to a rise in debt levels. Ghana entered the 1990s with some seven years of structural adjustment behind her. The necessary static efficiency gains emanating from the policy had been achieved and capacity utilization had improved. What were needed were more dynamic and sustainable gains coming from forward-looking investment decisions and the attainment of a more flexible entrepreneurial response. Policy was therefore increasingly directed towards the strengthening of the private sector and the creation of a more attractive environment to achieve such ends.

Furthermore, FDI flow to Ghana has been an important ingredient for successful economic growth; it is claimed that FDI remains one of the most effective tools available in the fight to achieve poverty reduction in Ghana (ISSER, 2007). The trend in recent years shows that FDI improves the quality of growth by reducing the volatility of capital flows and income, improves asset and income distribution at the time of privatization, improves social and environmental standards and helps improve social safety nets and basic services for the poor.

Within the Ghanaian economy the formal sector, apart from contributing to employment, also contributes to domestic production, income, provision of training and skills and basic needs. Baah-Nuakoh (2003) claims that the appreciation of the formal sector contribution in the Ghanaian economy is, however, limited by the lack of adequate and readily available data. In the 1984 and 2000 population and housing censuses, the informal sector in Ghana employed about 82% and 80% of the economically active population, respectively. Between 1984 and 2000, informal sector employment rose by 46.4% or an average of 2.7%. The informal sector's share in total employment also rose from about 84% in 1984 to 89% in 1992. The trend in employment indicates that the informal sector plays an important role in creating employment and thereby creating a source of income generation for the poor. With regards to openness to trade and FDI, one appreciates that, although there is limited data on the informal sector; one of the main objectives of the ERP when it was launched was to provide a more conducive regulatory framework for economic activities in Ghana.

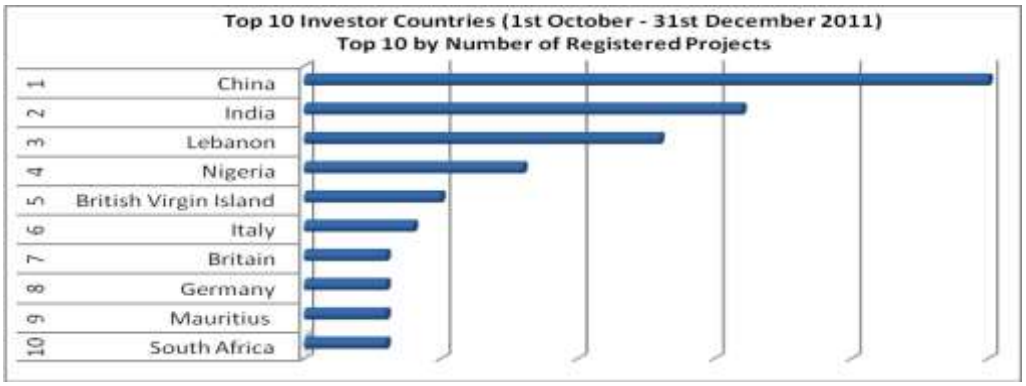
In 1994, a national Investment Code was established, which eliminated the need for prior approval of direct investment projects, which made it less difficult for companies to be formed, and also provided incentives and guarantees to investors. In the same year the GIPC (Ghana Investment Promotion Centre) was established. GIPC laws specify that foreign-owned banks must have a minimum capital of ¢50 billion of which 60% must be brought into Ghana by the investor in the form of convertible currency (IMF, 2004). Furthermore, non-Ghanaians cannot own more than 60% of an insurance company (NEPAD/OCED, 2005). Tsikata *et al.,* (2000)

argue that Ghana's historical trend can be shown in three main phases: these include economic growth; investment; and, political stability. According to Adam and Tweneboah (2009), attracting FDI into Ghana goes back to *opening up* policies and economic reforms. The World Bank's *Doing Business* team attributes this improvement to the fact that successive governments have developed legislation to improve investment conditions and also promoted a positive environment to attract FDI (BMI, 2009).

According to the GIPC (2011) Ghana exceeded the FDI inflows target of US$1.5 billion by US$5.32 billion for 2011. Highlights of recorded FDI inflows for 2011 include: total number of registered projects was 514, an increase of over 33% from 2010 resulted in a total estimated value of GH¢11.52 billion (US$7.68 billion); total FDI of GH¢10.23 billion (US$6.82 billion) with a local currency amounting to GH¢1.296 billion (US$864.08 million); total initial capital transfers of GH¢319.94 million (US$213.29 million), an increase of 200% from 2010, total jobs expected to be created was 46,761 with 3,589 out of the total being jobs for non- Ghanaians. This is a significant decrease of over 78.22% from 2010. The FDI component of the estimated value of the projects registered in the corresponding quarter of 2010 was GH¢183.40 million (US$131 million) and the local currency component was GH¢15.24 million (US$10.88 million). For the third quarter of 2011, the FDI component of the estimated value of the projects registered was GH¢4.84 billion (US$3.22 billion) and the local currency component was GH¢41.01 million (US$27.34 million). Figures 3.6 and 3.7 show China, with 25 projects, topping the list of countries with the highest number of registered projects. With US$2.25billion as the estimated value of the investments, Korea

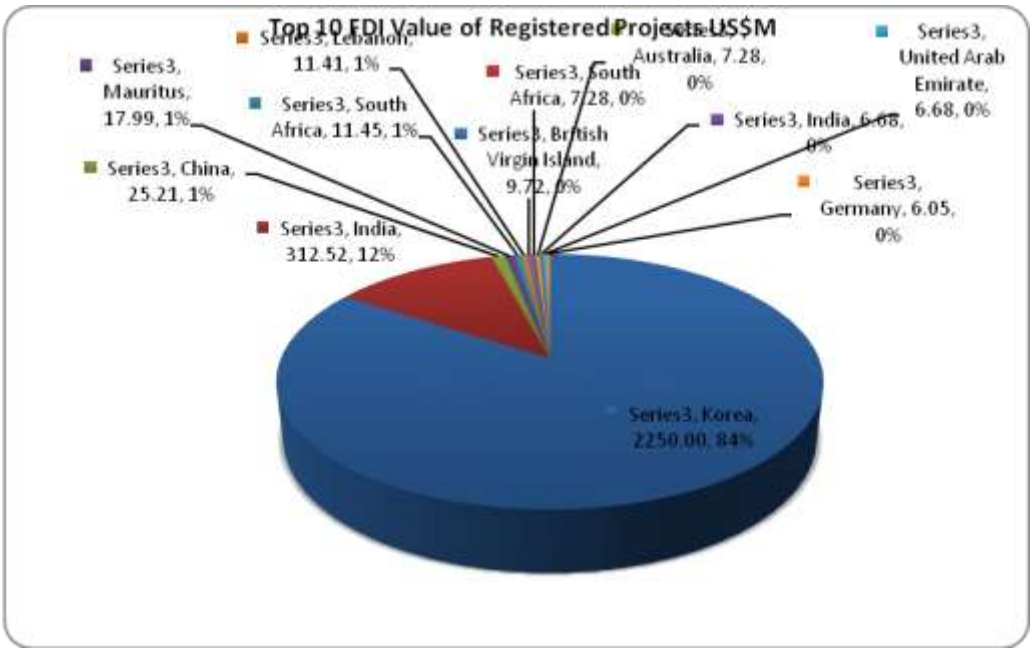
topped the list of countries with the largest value of investments registered during the quarter (GIPC, 2011).

Figure 3.6 Top 10 Investor countries



Source (GIPC, 2011)

Figure 3.7 Top 10 FDI Value of Registered Projects



Source (GIPC, 2011)

3.3 Banking sector – case studies

3.3.1 Introduction

The existing theoretical work on multinational banking has been adapted from general theories of FDI, which have been particularly centred on the development of the manufacturing industry. Authors such as Cho (1985) and Aliber (1984) have reviewed, in particular, the theories of multinational banking. With banks acting as the heart of the market system, their role is to pump surplus financial resources into the business entities that require it. This process, according to neo-classical economists, introduces balance to the market through efficient allocation of capital as a production factor. Braudel (1979) claims that banking is not merely the heart, but *the outright core of capitalism*. Consequently, *supported by theoretical justification, in Hilferding's and Schumpeter's view, banking is the engine or 'driving force', not only for economic growth, but also for social development in general* cited in (Lindgren *et al.,* 1996:40. This section is organized as follows. The scene is set by looking at the history of banking, which leads on to theories ranging from the traditional, to international and multinational banking. To further understand the rapid inflow of FDI in the Ghanaian banking sector, topical issues such as banking and globalization, and forces of globalization in banking are discussed. The oligopolistic behaviour of various types of banks not competing for price but for market share in the setting of the SSA region is scrutinized in detail.

3.3.2 Banking sector – overview

From the earliest times, banks have performed a wide variety of functions, and their developments have differed from one country to another. King (1987) claims that there were certainly institutions in ancient Greece and Rome, which undertook dealings in foreign exchange and accepted deposits for safekeeping. Some of the institutions were located in temples; one set of money-changers in the temple in Jerusalem were driven out by a famous visitor who felt such secular activities should not have been conducted there. The association with temples may have had something to do with the fact that these buildings often had a secure stonewalled strong room where the bankers could keep the stocks of coins belonging to them. In addition, they kept some deposits of coins entrusted to them by their owners for safekeeping. Banks then were believed to have been involved in money lending, though usually they lent their own money rather than money entrusted to them on deposit. It is also possible, too, that such early banks agreed to transfer deposits between depositors so that they could effect payments without having to withdraw their own coins. Certainly later Roman banks undertook such transfers. King (1987) states that banking in Western Europe declined with the Western Roman Empire and then re-emerged in the Italian cities, perhaps a little before AD 1200. These Italian banks performed broadly the same functions as the late Roman ones, though lending was at best a side-line since the Roman Catholic Church prohibited usury. The idea of usury being unacceptable came about when, as a result of a bad harvest, food prices soared and the poor had to borrow to pay for food, and it was felt to be unethical to help them with

anything less than an interest-free loan. As time went on, merchants sought to borrow in order to expand their businesses.

To examine the theoretical reasons why banks exist, it is important to understand the basic traditional model of banking. As mentioned earlier, banks play a major role in the economy, acting as intermediaries between depositors and borrowers. Banks are normally distinguished from other financial firms in that they provide deposit and loan products. Heffernan (1998) argues that the deposit products held by banks pay out money on demand, or in other words deposit products pay out after short notice. Banks are therefore in the business of managing liabilities, and in the process of lending money in the long run which creates a bank asset. On the other hand, one can argue that whilst banks manage assets and deposits other liabilities fund these assets. All modern banks are intermediaries between the borrowers and lenders but they may do so in different ways, from the traditional function of taking deposits and lending on the percentage of the deposits to fee-based financial services.

The terms *multinational banking* and *international banking* are often used interchangeably, as it is quite difficult to distinguish between the two. It is also clear that the descriptions are often referred to casually. According to Davis and Lewis (1987), of the two descriptions, international banking is the broader. They classify international banking into two main categories: traditional foreign banking and Eurocurrency banking. Traditional foreign banking involves transactions with non-residents in a domestic currency to allow trade finance and other international transactions. Eurocurrency banking involves banks' participation in foreign exchange transactions with

both residents and non-residents. International and euro-banking are not the same as *multinational banking*. Robinson (1972:40 defines multinational banking as *operating a bank in, and conducting banking operations that derive from, many different countries and national system*. Grubel (1977:359 claims that a *multinational bank involves the ownership of banking facilities in one country by citizens of another*. Consequently, Buckley and Casson (1989) define multinational banking as an enterprise that owns or controls banking activities in more than one country. They go on further to describe the activities it undertakes, which can be domestic, international or Euromarket operations. The fundamental point is that a bank may undertake any of these activities quite independently of whether it is multinational or not.

Heffernan (1998), states that many banks in the OECD countries engage in international banking activities. International banking is, however, an important aspect of modern banking; this includes the provision of trade finance and most importantly foreign exchange between countries. The international essence of the business activity does not define the characteristics of multinational banking. Buckley and Casson (1991:60 define an MNE as an enterprise, which *owns and controls activities in different countries*. Applying this in banking, authors such as Davis and Lewis (1987) and Jones (1992:45 argue that a multinational bank can be said to *own and control branches and/or affiliates in more than one country*. It is imperative to note that the defining characteristic of multinational banking is the element of foreign direct investment.

Within the banking context globalization is what can be described as the increase in international interdependence and closer internal co-ordination across national boundaries within multinational banks. When forces of international trade, foreign direct investment and the capital markets combine together, they result in a freer flow of goods and services, people, and real financial capital across national borders, and create a more interdependent world economy. The WTO (2002) report states that the volume of international trade in goods and services hit record highs in 2001, showing exports of about $7.6 trillion. Of this total, about $6.2 trillion was in merchandise and the remaining $1.4 trillion in commercial services. Furthermore, the WTO (2001) reported that between 1990 and 2000, exports witnessed an annual growth rate of 6%. One striking impact is on the sheer volume of exports generated by the advanced economies. For instance, the volume of exports from the United States in 2000 topped $1 trillion, which is about six times the volume of exports for the entire continent of Africa (WTO report, 2001).

This somewhat increased progression has had a huge effect on the banking industry. The growing integration of economies and societies around the world has been one of the most debated topics in international economies over recent years. Globalization has created rapid growth and poverty reduction in Africa, China and India. It is interesting to note that countries that do not participate in the process of globalization, or those having inferior or inadequate policies compared to developed or other developing countries, run the risk of becoming comparatively less competitive in the global economy. Globalization and the substantial growth of cross-border foreign direct investment capital flows in the world economy have been attributed to

a number of factors. While many claim that globalization is associated with the reduction in barriers to international capital flows, some contend that it has been driven by a variety of other forces, such as rising trade in goods, technological innovations, growing labour mobility, greater technological spill over, and liberalization of domestic markets.

The increasing financial links across countries, and especially between industrial and developing countries, have been associated with the liberalization of international financial markets. Moreover, globalization in production due to technological innovations in communications and transport, coupled with better policies in developing countries, are often considered as the primary forces that drove globalization and foreign direct investment in the 1990s. Gastanaga *et al.*, (1998) supported the notion that countries with relatively liberalized capital accounts, such as open economies, attract more foreign direct investment flows than countries that are more closed. Foreign direct investment (FDI) in sub-Saharan Africa (SSA) increased substantially in the 1990s. The rate of increase was minimal compared with other regions (Asiedu, 2002). For example, between 1980-89 and 1990-99, FDI in SSA grew by 218%. This compares with an increase of 990% for East Asia, 560% for Latin America, 789% for South Asia and 760% for all developing countries. As a consequence, Africa's share of FDI to developing countries has declined over time, from about 19% in the 1970s to 9% in the 1980s and to about 3% in the 1990s (UNCTAD, 2002). This is in spite of the policy reforms implemented by countries in the region. In total, with regard to FDI, Africa's experience as compared with that of other developing

countries can be characterized as absolute progress but a relative decline.

Impelling the fundamental character in the world of banking, technological advances have been the major driving force in bank globalization. Rybcynski (1988) states that the thrust of new technological innovations is centred in the area of computers, telecommunications and information: collectively known as *telematics*. These new advances facilitated the internationalization of finance. The growing ease with which financial assets can be transferred across borders implies that financial services are increasingly footloose.

Rybcynski (1988) argues that the integration of national and international finance started in the 1960s with the emergence of the Euromarket. From the mid-1970s there has been a growing worldwide tendency to regulate and reduce structural rigidities and barriers to competition in these domestic markets. This has encouraged the integration of international and individual domestic markets into a global financial market. Given that the measures varied from country to country, the three elements include the following. Firstly, the removal of interest rate restrictions on banks, the elimination of quantitative controls on the lending or use of funds and the elimination of withholding taxes on foreign interest income. Due to this factor, interest rates and the flow of funds are now determined to a large extent by world forces. Secondly, the abolition of exchange controls the loosening of constraints on the holding of foreign assets and the removal of barriers of various kinds to the entry of foreign financial institutions. The decreased discrimination against foreign

bank entry has aided the expansion of foreign bank establishments. Thirdly, the reduction of traditional boundaries limiting foreign financial institutions to operate freely has been lifted in most developed countries where these multinational banks stem from.

Globalization in banking has been driven by financial innovation. What is financial innovation? Much of the theoretical and empirical work in financial economics looks at a stylised world in which there are few types of securities (debt and equity) and maybe a handful of simple financial institutions (Tufano, 2002). In reality, there is a vast range of different financial products. The innovation process was a response to the changing economic environment of the 1970s and 1980s, of high inflation, volatile interest and exchange rates. Merton (1992) claims functional decomposition identifies six functions delivered by financial systems which include: (1) moving funds across time and space; (2) the pooling of funds; (3) managing risk; (4) extracting information to support decision-making; (5) addressing moral hazard and symmetric information problems; and, (6) facilitating the sale or purchase of goods and services through a payment system. Financial innovation has broadened the range of instruments available to bank customers. Pecchioli (1983) states that telematics and deregulation have contributed to the progressive lessening of the compartmentalized condition between the various segments of the national and international financial markets.

Dicken (2007) argued that before the 1960s a *world* financial market did not exist. The IMF, together with the leading industrialized nations, operated a broadly efficient global mechanism for monetary management - based, initially, on the post-war Bretton Woods

agreement. At the national level, the financial markets and institutions were very closely supervised, principally because of concerns over the vulnerability of the financial system to periodic crises and because of the centrality of finance in the operation of a country's economy. Braithwaite and Drahos (2000) and Eatwell and Taylor (2000) claim that financial services have been the most tightly regulated of all economic activity, undoubtedly more so than manufacturing industries. The drive for globalization of banking differs by player, by time and by country. From the viewpoint of the parent bank, some events of international positions originate in banks – specific searches for yield and diversification opportunities. Others have followed regulatory changes in the homes of the host country markets, which have increased the accessibility of expanding services to the host country, either as cross-border transactions or by establishing branches and subsidiaries in the host country (Goldberg, 2009). It is also evident that some cases of foreign entry into previously restricted markets have been the possible aftermath of crises, or as a result of arguments made in concurrence with negotiations over international trade and specific forms of market access.

According to Goldberg (2009), expanded global banking includes the period following the disbandment of the Soviet Union, when bank entry into central and Eastern Europe in the early 1990s led to a rapid growth of foreign ownership in the local banking system. He goes on further to claim that by the early part of the 21st century, foreign participation in the market often exceeded 80% of local banking assets. The first wave of liberalization was a follow-your-customer type, which emerged after the expansion of FDI into manufacturing and resource extraction industries and the enhanced competition that

Latin America faced from Asian countries. Gulamhussen (2012) states that in global banking, as in manufacturing and service industries, a manager must remain vigilant and adaptable to the ever-changing environmental changes and be ready to define the company's business mission and reformulate its marketing policies and strategies to meet the needs of the evolving marketplace. The mission of a bank will not only vary from country to country, but the portfolio of activities will also be related to the changing expectation of customers in the market. Banks are no longer in the business of buying and selling money, but in the business of providing a complete financial service to a market-orientated global economy. Turner (1983) states that the development of banks on a global scale takes place at an incremental rate. Banks' planners and policy makers should consider the following factors in their planning efforts: (1) there is the convergence of personal financial service business of serious over-capacity in the financial service market; (2) there are the diverging needs of groups of target customers; (3) competition in global banking is continuing to increase at an accelerating rate; (4) most banking markets have been internationalized, bank clients and small businesses have become sophisticated; and, (5) the technological gap is appearing between what available technology can do and what banks are doing with it and the increasing sophistication of global bank clients.

Feller *et al.* (2008), state that, without question, banking is becoming more global. Banks have a choice in how they attain greater growth, efficiency and effectiveness – all banks must consider at least some aspects of becoming a globally integrated enterprise. For some banks this will mean expanding their global reach in a more targeted fashion.

Customers are taking charge of their relationships with financial service providers, they have greater access to information, and demographic and cultural shifts are making the drivers of buying behaviour harder for banks to identify (Hedley *et al.*, 2005). As globalization increases the flow of people, money and technology across borders, customers have more banking options to choose from; increasingly disjointed demands are less constrained by traditional views of who their financial service providers should be. The task before banks is not to discover what customers want, but to find ways to reach them that fit their unique needs.

The demand for wealth management, advice and international banking services is rapidly expanding among the growing ranks of mass affluent customers. MasterCard Worldwide (2007) states that in China the number of customers with an annual income of over US$50,000 is growing by 15% per year. This example highlights that a greater number of bank customers in prospective markets need assistance with wealth management. Customers increasingly travel around the world and have a high demand for the need for their finance to be readily available; globalization has made this possible as banks can provide readily available services to meet their complex needs.

The effects of globalization are just as perceptible in the demand amongst less wealthy consumers. Tamal (2007) asserts that in prospective markets, economic development is rapidly increasing the percentage of the population seeking banking services. In India alone, an estimated 41% of the adult population remains unbanked (no bank accounts or association with a bank). Customers are increasingly seeking access to basic banking services such as savings, consumer

and housing loans and small business microfinance. Bain *et al.* (2007), claim that an important benefit of moving to a global operations structure is to take advantage of group knowledge and expertise through joint learning across subsidiaries. An integral part of global operations strategy, however, is the two-way transfer among subsidiaries. Globalization breaks down the barriers to the flow of information and expertise within a multinational banking group. For example, Bain *et al.,* (2007), state that learning is made possible among subsidiaries across multinational banking groups.

The evolution of financial systems in SSA reflects diverse political and economic histories. Ajakaiye (2005) argues that in an economy where the supply channel of the financial sector is dominant, the financial sector itself and the economy are dominated by the banking sub-sector with its rudimentary capital market. Clearly, this is a better approximation of the situation in virtually all SSA countries. The role of most of the governments in the financial sector development in SSA should go beyond regulations and surveillance of the banking sector, to the establishment and deepening of the capital market. Terrell (1986), in a study of OECD countries, found that countries which exclude foreign banking earned higher gross margins and higher pre-tax profits as a percentage of total assets, but exhibited higher operating costs than in countries where foreign banks are permitted to operate. He showed that excluding foreign bank participation reduces competition and makes domestic banks more profitable but less efficient.

The banking sectors of SSA economies are restrained by poor pay, political interference in management decisions and regulatory

systems, which limit banks to prescribed activities and, in some cases, limit financial innovation. In the absence of explicit documented lending policies, it is more difficult to manage risk and senior managers are less able to exercise close control over lending by junior managers. This has led to an excessive concentration of risk, poor sections of borrowers and speculative lending. Improper lending practices usually reflect a more general problem with management skill, which tends to be more evident in banking systems in SSA. Lack of accountability is also a problem because of the overly complicated organizational structures and poorly defined responsibilities. Entry of foreign banks in SSA is a fast way of improving management expertise and introducing the latest technology, but this option is often politically unacceptable (Heffernan, 1998). Financial markets in the region are heavily regulated, with bank lending most often directed to the government or priority sector. There is very limited financial intermediation, with little or no competition amongst banks. Collier (2007) and Mobolaji and Ndako (2008) argue that weak economic growth explains a lower savings rate and higher capital flight from Africa.

Furthermore, the global financial crisis that originated in the collapse of the market for sub-prime mortgages in the United States in 2007 at the outset did not hit Africa directly. The crisis also had little impact on the sub-Saharan African financial systems because the financial sector in Africa remains one-dimensional, uncompetitive and weakly integrated with the global markets. Despite the fact that money, currencies and capital markets had significant pressure from the crisis, they have continued to function, as one would expect, normally, and financial institutions in most countries have been stable without

emergency support from monetary authorities. On the other hand, due to pressures intensified by the crisis, sub-Saharan African countries are being hit hard as the global crisis has continued to deepen. The growing effects of a depressed world economy and the increased risk repugnance of investors pose growing risks for sub-Saharan African financial systems. As a matter of fact, frontier and emerging market countries such as South Africa, Nigeria, Ghana and Kenya were hit first, suffering falling equity markets, capital flow reversals and pressures on exchange rates (Kiyota, 2009).

Most African economies have a high degree of foreign bank penetration. The large share of foreign-owned banks across Africa has brought stability over the past years but also exposes the region to additional contagion risk. The boosting of domestic banks' efficiency is mainly attributable to raising the number of foreign banks. According to Ngalande (2003), central bankers in the Southern African Development Community (SADC) recognize that efficiency in the banking sector is a key contributor in macroeconomic stability. It is also a precondition for economic growth and important for the effectiveness of monetary policy (Hartmann, 2004). The financial debacle elicited by the US sub-prime mortgage market precipitated a global financial crisis, which has simultaneously affected all the major economies including the USA, EU, Japan and China. This global crisis caused all these economies go into recession by the end of 2008. The IMF (2009) points out that many countries in sub-Saharan Africa enjoyed robust economic growth in recent years that strengthened their balance sheets. Sound economic policies were an important factor, as was the favourable external environment and increased external support in the form of debt relief and higher capital inflows.

Sub-Saharan African countries greatly vary country by country in terms of financial market development; linkages to global financial markets and institutions; the initial soundness of their financial systems; and, their capacity to respond to the shocks flexibly and comprehensively. Their exposure to the crisis therefore also differs. Countries with sound financial systems, substantial reserves and fiscal surpluses are integrated with global markets, so the faster they feel contagion effects; but those countries with stronger financial systems and with flexible policy frameworks could absorb shocks better and mitigate the effects more effectively. Furthermore, foreign bank penetration can have both positive and negative implications for countries in the SSA region. Firstly, according to Levine (1996), foreign bank management practices and information technology may improve the efficiency of the domestic banking system, both directly and indirectly, by competing with domestic financial institutions. Secondly, foreign banks may start to offer new financial services, may encourage better regulation, accounting standards and practices the financial and legal structure more broadly, and may also attract (other) foreign direct investments (FDI). Thirdly, a growing supply of foreign bank credit can reduce the costs of obtaining loans for domestic firms. According to Cardim De Carvalho (2000), foreign banks will be more independent of governments and may have less incestuous relations with domestic firms. Lastly, well-capitalized foreign banks may be able and willing to keep lending to domestic firms during adverse economic conditions, as opposed to domestic banks, which will possibly lower their credit supply.

On the negative side, foreign banks might just as well be *less* inclined to keep up their credit supply in the host country, for instance, when the economic environment in their home country deteriorates (De Haas and Lelyveld, 2002). Another source of concern is that foreign banks may only provide credit to the large and often foreign-owned (multinational) firms, leaving the bad corporate credit risks as well as the retail market and the related payment services to domestic banks (*cherry picking*). Peek and Rosengren (2000) argue that foreign bank penetration, whether cross-border or by means of local subsidiaries, may weaken the position of the (less-sophisticated) domestic banking system. Domestic banks that are not able to cope with the increased competitive pressures may, for instance, fail and lead to periods of severe financial instability. Given the debate has been centred on both the positives and negatives, there appears to be some exclusivity which relates to a specific form of entry: through local subsidiaries or cross-border. Only by buying a subsidiary can a foreign bank provide new funds to recapitalize a troubled banking sector. Subsidiaries can in times of crisis operate as *safe havens* and thus reduce the flow of domestic funds abroad, as residents can now *do their capital flight at home* (de Haas and Lelyveld, 2002). Cross-border credit by foreign banks may lead to specific problems of financial instability. McKinnon and Pill (1997:195 show that *when a country has an unlimited access to the international capital markets, e.g., because of an abundant availability of cross-border credit, and the local debtors are in addition subject to moral hazard, and this will lead to over borrowing and overinvestment*. From the above, it appears that the risks and potential disadvantages of foreign bank penetration are not

so much related to the efficiency, but more to the stability of the domestic banking system.

Amidst the global recession and domestic growth slowdown, the past few years have seen a phenomenal growth in the Ghanaian banking sector. Bob-Milliar *et al.,* (2007) claimed that the banking sector in Ghana has emerged from severe financial and reputational damage resulting from economic recession and government debt in the 1980s and 1990s, when Ghanaian banks and other financial institutions stopped lending to the private sector. The banking sector has seen a major capital injection partly because of the political stability, achievement of micro and macroeconomic stability and various governments' desire to make Ghana the *financial hub* of the sub-region. The Bank of Ghana (BoG) has endorsed the enforcement of statutory requirements, more stringent supervision and licensing capital requirements. In March 2009, there were 642 bank branches, up by 32.1% year-on-year from 486 in the previous 12 months (BMI, 2009); these include a range of non-financial institutions, including several community banks established to mobilize rural savings (appendix III shows a list of banks in Ghana). A quite remarkable feature of the sector is the level of ownership by the private sector, directly or through the capital market, when compared with the level of state ownership seen in other financial sectors in other African countries (Bob-Milliar *et al.,* 2007).

According to the latest data issued by the BoG, the total assets of the banking sector grew by 36% year-on-year to GHS11,479MM in May 2009 (BMI, 2009). This indicates a swift expansion of the banking

industry, and the growth rate is marginally slower than the 37.1% year-on-year recorded for the same period in 2008. Banks in Ghana have become more rigid in their lending through widening margins on loans, as well as increasing security/collateral requirements. The global ramifications have served as a warning against complacency in lending behaviour, and have steered to a more conservative approach in Ghana. Even though lenders may be cautious, domestic growth is slowing and default risk is rising. The BoG report highlighted *expectations regarding economic activity* as one of the two main reasons cited by lenders for the tightening of credit. The other reason was the increased cost of funds, indicating the tightness of the credit market. Borrowing from other banks is expensive, with the interbank rate currently at 15% in September 2012 (Bank of Ghana, 2012). Bank of Ghana (2012) reported a general softening in demand for credit by both enterprises and households, it commented that the consumer attitude was softening and that business confidence was at a low point.

The issue of finance for development is unquestionably important in the drive to change economic structure. Buchs and Mathisen (2005) argue a competitive banking system is a precondition for ensuring that banks operate as credible businesses for financial intermediation, channelling savings into investments and thereby nurturing higher growth. They argue that *the structure, as well as other market characteristics, constitute an indirect barrier to entry into the banking system and thereby shield the banks' large profit* (Buchs and Mathisen, 2005:23. Applying panel data to variables derived from Panzer and Rosse's (1987) analytical framework, Buchs and Mathisen (2005) find evidence of a non-competitive (monopolistic) market structure in the Ghanaian banking system that impedes financial

intermediation. They identify the following key obstacles to competition: (1) persistent financing of government needs, to the detriment of the private sector; (2) high cost of investment; (3) barriers to competition on interest revenues; and, (4) losses on portfolio. The key recommendations to improve financial intermediation include achieving effective fiscal adjustments and a rigorous enforcement of creditor rights by addressing institutional lapses in financial regulations and judicial reviews of Ghana's lending structures.

Various measures used by the BoG to determine the stability of the banking sector suggest that the risks are limited. The capital adequacy ratio, which measures the ratio of regulatory capital to risk-weighted assets, has risen slightly but remains well above the required 10%, having recorded 13.8% in December 2008. Comparably, the loan-to-deposit ratio rose marginally to 89.8% in March 2009 from 85.9% in December 2008 – remaining well below 100%, which indicates the banking sector is not overly dependent on foreign financing. External borrowings by banks, as a source of funding, remain less than 5% of the total bank funding requirements. In addition, a stress test carried out by the BoG revealed that only a recall of a considerable proportion (over 50%) of external borrowing would impact on the risk-adjusted capital of the banking industry (BoG, 2009). Although, there are several leading foreign banks in Ghana such as Barclays Bank Ghana Limited, Standard Chartered Bank Limited and Ecobank Ghana Limited, it is envisaged that more overseas players will seek to gain market share in Ghana, given the nation's strong economic growth trajectory. According to the BMI (2009), Nigerian banks may be keen to enter the Ghanaian market, given its geographical proximity and

shared language. The overall banking sector according to BMI (2009) is relatively sound, but subject to greater risk than previous years. This milieu signifies the continuation of the following trends; with the expectation of the increase in the population of Ghana, it is envisaged more bank branches will be opened to accommodate formally the proportion of the unbanked population.

According to the Bank of Ghana (2010) developments in the banking sector through February 2010 show continued strong asset growth on account of significant increases in deposits and shareholder funds. As a result, however, of the slow pace of growth of loans and advances, the growth in total assets was lower than the February 2009 position. The banking system continued to be well capitalized and liquid. The Capital Adequacy Ratio (which measures the banking system capacity to withstand unexpected losses) increased from 14.8% in February 2009 to 19.7% in February 2010. To clarify this point, in the last Monetary Policy Committee Press briefing, the Bank of Ghana reported that the ratio of non-performing loans to gross loans for December 2009 was 14.9%. This figure has had to be revised to 16.2% for December 2009 on account of additional provisions that the Bank Supervision Department requested a few banks to make for loan impairment. The correct rate should therefore have been 16.2% in December 2009, rather than 14.9%. Since then, the non-performing loans ratio has increased to 20% in February 2010 due to energy sector loans (amounting to 3.7%), which were re-classified (Bank of Ghana, 2010).

The survey of credit conditions conducted by the Bank of Ghana in March 2010 continued to show a general net tightening of credit to

enterprises and households for mortgages in the first quarter of 2010. There are additional declines in net demand for long-term credit. The cost of funds and increases in adversely classified loans contributed to the net tightening of credit. Non-price terms and conditions such as shortening of the maturity of loans or credit lines, and the requirement of additional loan covenants and collaterals were employed to tighten the credit stance in the first quarter of 2010. As a source of funding, external borrowings by banks continued to be less than 5% of total bank funding requirements. This confirms the reduced reliance on external borrowings as a source of funding. Commercial banks' credit to the private sector and public institutions over the 12-month period to February 2010 increased by GH¢0.8 billion (13.2%) compared with GH¢1.9 billion (46.9%) recorded for the same period in 2009. The private sector's share of the credit flow was GH¢0.7 billion (85.5%), which translates to a 13.9% growth and compares with 47.4% over the corresponding period in 2009.

According to the Bank of Ghana (2010), there has been a shift in the distribution of the annual flow of credit to the private sector. For the first time the agricultural sector absorbed most of the credit extended in the year to February 2010. The agricultural sector received 20.2% of the flow of credit to the private sector, while electricity, gas and water absorbed 18.8%. Other major recipients include the manufacturing sector (16.9%), import trade (16.5%) and construction (15.4%). Real credit extended by the commercial banks to the private sector declined by 0.3% at the end of February 2010, compared with a growth of 22.5% at the end of February 2009. Outstanding commercial bank credit to the private sector in February 2010 was GH¢5.7 billion (26.6% of the GDP), compared with GH¢5.1 billion

(23.4% of the GDP) at the end of February 2009 (Bank of Ghana, 2010).

3.4 Summary

This chapter has provided the background information of the thesis. It included the historical development of the Ghanaian economy, socio-political outlook of Ghana, economic development and policy between 1950–1980, adoptation of economic policy giving reasons under the economic recovery program (ERP) and structural adjustment programmes (SAPs), investment climate in the SSA region particularly Ghana, FDI trends on the global, African, SSA and Ghana fronts in the last 10 years and the literature on banking providing an explanation to the oligopolistic behaviour of various types of banks not competing for price but for market share in the SSA region. In chapter 4 the conceptual framework is presented necessary for identifying location characteristics.

Chapter 4: Conceptual framework

4.1 Conceptual framework

There is a need to develop a conceptual framework necessary for identifying location characteristics. As a result, the following location characteristics; market size and growth, labour market, macroeconomic policy, infrastructure and political and legal factors were used to investigate the location characteristics of MNEs location decisions in the Ghanaian banking sector. The proposed conceptual framework is shown in figure 4.1. The purpose of the conceptual framework was to guide and shape this study. In this study, the following sub-factors applicable to the banking sector were used.

Market: *large size of the host market, market growth in the host market,* l*evel of competition in the host market and market familiarity in the host market*

Labour market: *labour cost in the host market,* r*eturn on investment in the host market and availability of well qualified workforce in the host market*

Macroeconomic policy: *economic stability in the host market,* e*conomic growth in the host market and exchange rate in the host market*

Infrastructure: *level of infrastructure in the host market and geographical proximity in the host market*

Political and legal: *political stability in the host market, legal and regulatory system in the host market, government tax incentives for*

foreign banks, diplomatic ties in the host market and international trade agreement in the host market

As stated in chapter 1, the main aim of this thesis is to examine FDI location characteristics contributing to the location decision of MNEs in the Ghanaian banking sector. The research objectives are to;

- Investigate Financial MNEs decision to locate in the Ghanaian banking sector in relation to FDI location characteristics.
- Assess the effect of Financial MNEs' activities in the Ghanaian banking sector.
- Use the findings of this research to inform Ghanaian policy-makers in order to improve and consolidate on the government's policy on FDI.

These objectives have been achieved by making use of the evidence available from the data collected to test the validity of the research question (refer to chapter 1).

The research question is now formulated in hypothesis form as:

H1: FDI location factors are significant to influence MNEs to locate in the Ghanaian banking sector.

The sub-factors of H1 are also formulated in hypotheses forms as follows:

H1a: *market factors play a significant role in FDI location decisions in the Ghanaian banking sector.*

H1b: *labour market factors play a significant role in FDI location decisions in the Ghanaian banking sector.*

H1c: *macroeconomic policy factors play a significant role in FDI location decisions in the Ghanaian banking sector*.

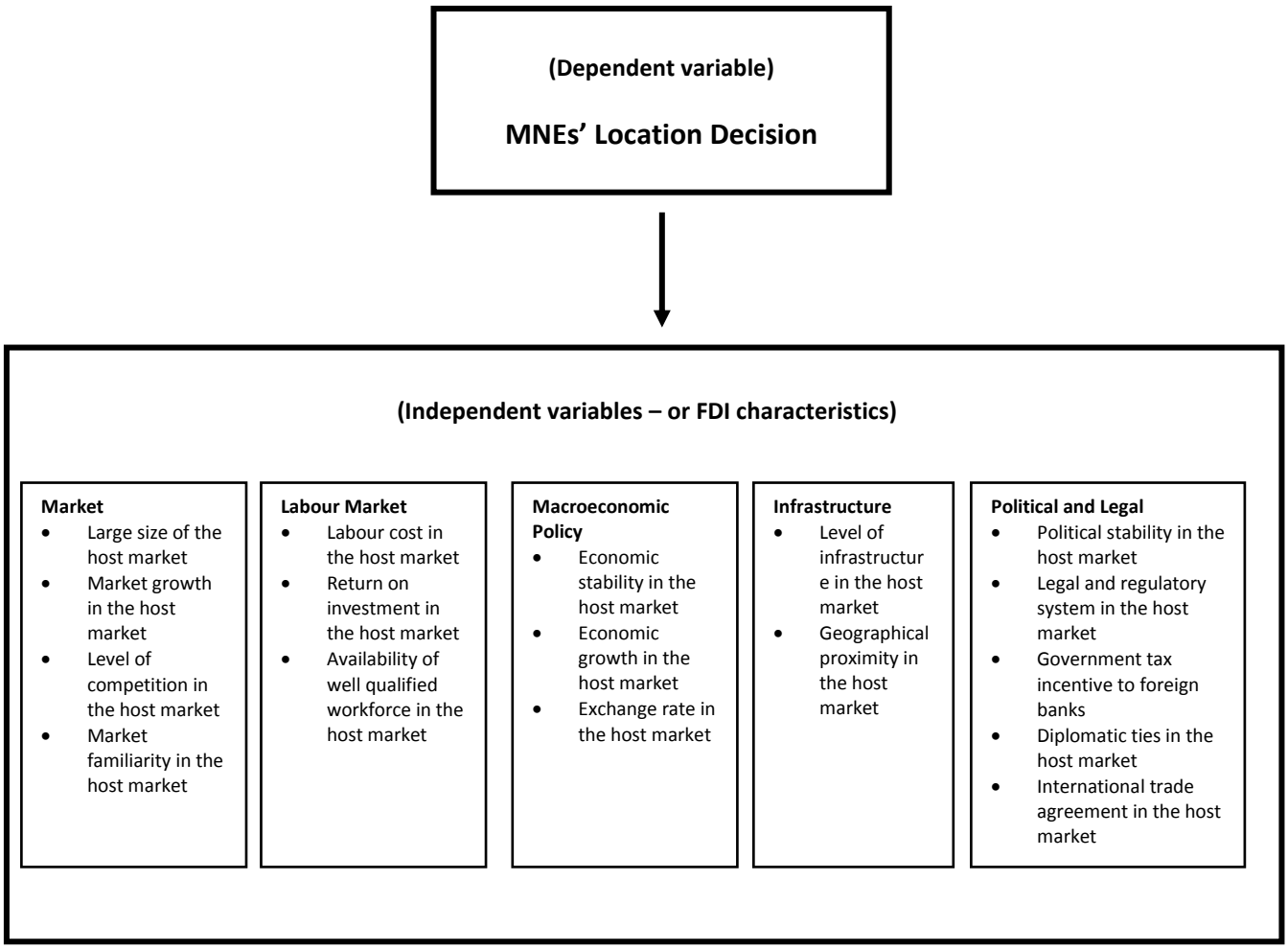
H1d: *infrastructure factors play a significant role in FDI location decisions in the Ghanaian banking sector.*

H1e: *political and legal framework factors play a significant role in FDI location decisions in the Ghanaian banking sector.*

Drawing from the eclectic theory in respect of Location (L), the question arises, why should a firm extend its activities to other countries? The answer which Dunning (1977, 2000a, 2000b 2002) gives is that LSAs have certain advantages that may be enjoyed by the host country. In view of Dunning's explanation above the researcher developed the below conceptual framework to explain FDI location characteristics that may influence MNEs' decision to locate in the Ghanaian banking industry. Mathematically, MNEs location decision is derived as a function of the independent variables listed in figure 4.1 below.

Figure 4.1 Conceptual Framework

(Drawing from the reviews of the literatures on FDI, the below conceptual framework was developed for this thesis)



Source: Author (2012)

In other words MNEs location decision is a function of market (η), labour market ($l\eta$), macroeconomic policy (η_P), infrastructure ($\dot{\iota}$), political and legal factors ($_Pl$) and μ_t is the error term.

(*MNEs Location decision* = $f\ (m, lm, m_P, i, Pl, \mu_t)$

4.2 Summary

The number of firms considering location on a worldwide basis continues to increase (Flaherty, 1996). The literature reveals a very wide range of factors may potentially influence firms in deciding to locate their businesses across national frontiers and a great deal of attention has been paid to critical factors in industrial location decisions for over a century (Jungthirapanich and Benjamin, 1995). The literature specifically on location characteristics and their effect on MNEs' location decisions in banking are more limited. According to Badri *et al.* (1995), Eenennaam and Brouthers (1996) and Atthirawong and MacCarthy (2001) only a limited amount of research has been reported that discusses the factors recognized, and considered in practice, in international location decision-making. The thesis, therefore, addresses this gap in knowledge on location characteristics and their effects on location decisions specifically in the banking sector.

Chapter 5: Research methodology

5.0 Introduction

This chapter assesses the research methods available and those used to achieve the aims and objectives of the thesis. Ghauri and Gronhaug (2005) define research methods as methods referring to a systematic, focussed and orderly collection of data for the purpose of obtaining information from them, to solve/answer a particular research question. The techniques used to collect the required data are varied a. a multi method approach was used for this study. To have a clearer view of how the research is undertaken, the population to be studied is defined in this section and various data collection procedures are discussed. The epistemological perspective of the researcher is examined and from a philosophical view, the debate surrounding positivism and phenomenology is discussed in depth. Subsequent sections in this chapter look at the interview sample, interview questionnaire design, questionnaire layout and presentation, data sources, data analysis and a summary of the methodological approach adopted for this study.

5.1 A multi method approach

In this thesis, a multi-method approach was used to study FDI location characteristics of MNEs location decisions in the Ghanaian banking sector. The study first draws on interpretive-constructivist and constructivist-phenomenologist traditions, which stress a person's, lived experience (Saunders, Thornhill and Lewis, 2009). In addition, a positivist paradigm was used to evaluate whether our knowledge claims (i.e. theory – based predictions) are consistent with the

information set (Descartes, 1998 and Bryman 2012). An approach for combining qualitative and quantitative research has been suggested to provide a richer context for interpreting and validating results, and to lead to a wider coverage of the research problem (Cresswell 2008). The components of this multi method approach used in this research include case studies, interviews and a combination of data techniques such as t-test, Spearman ranking and Pearson Chi square test to analyze the primary data.

5.2 Epistemology, methodology and research methods

There has always been a concern in the social sciences regarding the way social phenomena are investigated. This is due to the question of whether the same methods used in the physical sciences are able to be used in the social sciences and even whether phenomena of a social nature are capable of being studied scientifically. In short, are the social sciences capable of being accorded the distinction of being sciences at all. According to Easterby-Smith *et al.* (2008) this has implications for management research because it relies on the research traditions of sociology, education and psychology. Pfeffer (1995) argues that there is no general agreement in management research in relation to scientific methods, which therefore limits the progress of the research. In investigating the debate for science, Shipman (1988) referred to Popper's (1959) three distinctive features of science. The first was that statements that cannot be falsified are not scientific. Secondly, science is about hypothesis testing, a rational and critical discipline. Thirdly, in science, the theory exists before any empirical evidence or data are gathered. Data gathering and the choice of

method is informed by the philosophical stance and therefore the search for a scientific method is important. In support of the philosophical stance, Williams and May (1996) argue that most philosophers of science have argued that the method used is the only guarantee that the knowledge obtained is valid, reliable and thus scientific. By employing the correct method, the scientist may be sure that his/her findings are *true*, *repeatable* and *generalizable*. In this view, science is a method.

Easterby-Smith *et al.* (2008) state that there are two opposing philosophical positions that inform which research method is used, positivism and phenomenology. Phenomenology argues that reality is socially constructed rather than objectively determined (Easterby-Smith *et al.* 2008) and, as a result, there are as many views on any subject as there are people to hold them. Phenomenology is characterised by a focus on the meanings that research subjects attach to social phenomena; an attempt therefore must be made by the researcher to interpret these meanings and, thus, to understand what is happening and why it is happening (Saunders *et al.* 2009). Qualitative methods are informed by a phenomenological approach. Examples are case study, interviewing, cognitive mapping and participant observation. Each of these methods enables the researcher to gain an insight into specific situations and views of the social world. This is fundamental because *the task of the social scientist should not be to gather facts and measure how often certain patterns occur, but to appreciate the different constructions and meanings that people place on their experiences* (Easterby-Smith *et al.* 2008:30).

From the positivist viewpoint, Durkheim (1895) stated that the methods used to investigate the social world are the same as those for the physical world. The method could be the same because the subject matter did not dictate the appropriateness of the method used. This was challenged by Katz *et al.* (1995) who argued that human beings had the capacity for autonomous reflection, thus distinguishing them from inanimate objects (Williams and May, 1996). The term positivism, according to Bryant (1985) originated in the work of Comte (1830) in his volumes *Cours de philosophy positive* (1830-42). Comte (1830) penned the terms *positive philosophy* and *the positive method*. Positivism, argued Bryant, does have meaning today: indeed positivism in philosophy has come to be associated with epistemologies which make experience the foundation of all knowledge and also with their complementary ontology which proposes a division between objects which are accessible to observation (about which knowledge is therefore possible) and objects which are not (and about which there can therefore be no knowledge) (Bryant, 1985). Bryant (1985) set positivism in a sociological context and sought to explore the different definitions of positivism used by philosophers and later by sociologists. He referred to the work of the philosopher Kolakowski (1966) and the sociologist Giddens (1974) to explore the different contexts of positivism. Kolakowski (1966) presented positivism as *a collection of rules and evaluative criteria for referring to human knowledge*, and as a *normative attitude, regulating how we use such terms as knowledge, science, cognition and information* (cited in Bryant, 1985:20). Comte (1853) formulated three laws, which have become synonymous with positivism: the law holds that in the course of the development of mankind the human mind

progressed through three different modes of philosophising; the theological or fictitious, the metaphysical or abstract and the scientific or positive (Bryant 1985).

According to Comte (1853) a common method for attaining positive knowledge is by way of the main tools which are observation, experiment and comparison. Although Comte (1853) did not concern himself with empiricism or new statistical techniques, he repeatedly stressed the indispensability of the positive method and how observation, experiment and comparison were pivotal. Bryant (1985) argued that Comte's (1853) method of attaining positive knowledge paved the way for people such as Popper (1959) *who insist that the unity of science consists of the unity of scientific method* (Bryant, 1985:20). The period of explanation sought to extend the amount of knowledge gained about the natural sciences to the understanding of human sciences. This led to the birth of positivism as a theoretical perspective within an objectivist epistemology. Positivism refers to science that is posited, as opposed to that which is natural. Science is posited because it is founded by use of the scientific method, observation not speculation (Crotty, 1998). Questions such as *what is the meaning of life?* or *why are we here?* are meaningless to the positivist because where science cannot answer such questions there is little point in asking them, Inquiries into the origin and purpose of things, into first and final causes, are excluded not only from science but also from knowledge. (Bryant, 1985).

Furthermore, the role of positivism in social research is to encourage the researcher to remain objective and neutral or as Williams and May (1996:20) explain, *separating the knower from the known*., This belief

is, however, inconsistent because it is impossible to separate the researcher from the phenomenon being investigated. The researcher makes important judgements and decisions about research subjects, for example in the types of categories used.

Hermeneutics was a different tradition and was based on the belief that the study of humans differed from the study of the physical world because of human consciousness and the ability of humans to talk. This, it was argued by Easterby-Smith *et al.* (2008), required a different empirical method from positivism. In terms of making predictions, there are three differences between the physical and social worlds that can be identified. The first is that many more variables exist in the social world that need to be taken into account before any predictions can be made or relationships explained. Secondly, in order to use *scientific* measurement in the social world, social science must use concepts and measures from the physical sciences, when there is doubt surrounding their applicability in the social world. Thirdly, there is a need to take into account everyday experiences when making predictions about the social world, something the physical sciences do not have to do. The positivists argue that although differences do occur between the physical and social worlds they are only a matter of degree and do not represent a fundamental difference and therefore it follows that the same research methods may be applied (Easterby-Smith *et al.* 2008). As such, research methods that are informed by a positivist approach allow the researcher to measure the properties of the social world, which exists externally, as opposed to being inferred subjectively through sensation, reflection or intuition (Easterby-Smith *et al.* 2008). Johnson and Duberley (2000:60) argue

that, *the methods of the natural sciences offer the way forward in understanding the workings of organisations*. The next section examines the data sources.

5.3 Data sources

This research is based on collecting data from primary and secondary sources. Depending on how the data is collected Saunders *et al.* (2009) argue that, to a certain degree, there is an element of bias. Is it logical to assume that the way you are collecting information is going to yield valid data? If you interview top bosses you are likely to encounter the *good news* syndrome. If you collect press cuttings from newspapers, how can you assume that there has not been any political bias put on the article? According to Beins and McCarthy (2012) primary data are originated by a researcher for the specific purpose of addressing the problem at hand. Bryman and Bell (2007:326) define secondary data as *the analysis of data by researchers who will probably not have been involved in the collection of those, for purposes that in all likelihood were not envisaged by those responsible for the data collection*. It is important to compare primary and secondary data; which then focuses the discussion into both the advantages and disadvantages of each individual source. Table 5.1 shows the comparison between primary and secondary data.

Table 5.1 Comparison between primary and secondary data

Collection	Primary Data	Secondary Data
Purpose	For the problem at hand	For other problems
Process	Individually tailored	Rapid and relatively simple
Cost	High	Relatively low
Time	Long	Short

Source Malhotra and Birks (2000)

5.3.1 Primary data

In primary data collection, one must collect the data themselves. In this research the primary data sets were collected by the researcher. There are various means of collecting primary data: these include observation, interviews, surveys (questionnaires) and experiments. The key point here is that, until the data collected is published no one has access to the data collected. Ghauri and Gronhaug (2005) state that when secondary data are not available or unable to answer the research question(s), we must collect the data that are relevant to our particular study and research problem; and these data are referred to as primary data.

5.3.2 Secondary data

Secondary data includes both qualitative and quantitative data and they are used principally in both descriptive and explanatory research. Kevin (1999) claims that the data used may be raw data, where the data have not been sufficiently processed, or complied data that have received some form of selection or summarizing. Most research begins with a review of the literature, which involves earlier studies on and around the research topic. According to Bryman and Bell (2011) this includes books, journal articles or data sources such as web pages of firms, government publications, those of semi-government organizations and catalogues.

In this research, data were gleaned from books, periodicals, newspapers and journal articles. The official documents used in this study were obtained from public sources including official documents from Ghana Central Statistics Office (CSO), Institute of Statistical, Social and Economic Research (ISSER), Ghana Export Promotion Council (GEPC), Ghana Investment Promotion Council (GIPC), the World Trade Organization and the International Monetary Fund. These documents were used to uncover patterns, policies, and developments in the banking sector. The use of secondary data helped in the following ways: answering research questions; solving some of the research problems; helping in problem formulation; and, devising more concrete and focussed research questions. According to Saunders *et al.* (2009) for research projects, the documentary sources available will depend on whether the researcher has been granted access to organizations' records as well as having been successful in locating library data archives and commercial sources. Access to an organization's data, for example, will be dependent on *gatekeepers*

within the organization. Secondary data can be categorized in three main subgroups: documentary data, survey-based data and those compiled from multiple sources (Saunders *et al.* 2009). Section 5.3 discusses the research strategy.

5.4 Research strategy

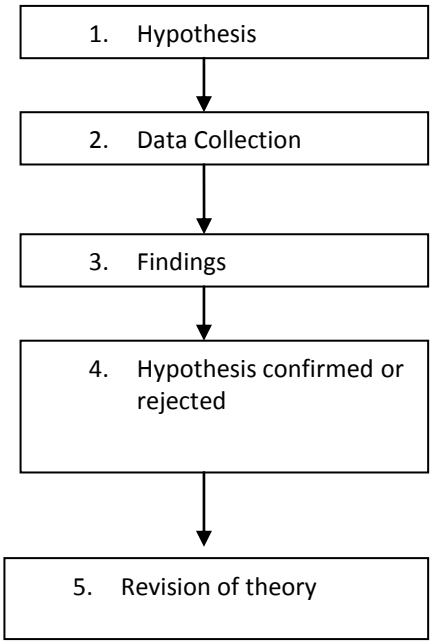
This section examines the research strategy used in this study. In the previous section it was argued that although differences do exist between the physical and the social worlds, the methods used to research the physical world could also be employed in the social world. Thompson *et al.* (2005:15) define strategy as the combination of planned actions and on-the-spot adaptive reactions to fresh industry and competitive events. In this study, the research strategy adopted was driven by the research objectives, time and the philosophical underpinning surrounding the research process.

The views of the respondents were explored to investigate the location characteristics and their effect on MNEs' location decisions in the banking sector. According to Bryman *et al.* (2007) and Bryman (2012) the knowledge and experience of the industry as well the history of regional markets reinforces the assumption that their views reflected reality. Most of the respondents have worked in different countries in the SSA region, USA and Europe. The research location chosen for this study seemed to have varied degrees of respondents of high pedigree with many years of proven experience which gives a high level of credence to the findings of the empirical work.

5.4.1 Deductive and inductive reasoning

According to Bryman and Bell (2011) research is done in order to answer questions posed by theoretical considerations. An alternative to this viewpoint is that theory is perceived to be something that occurs after the collection and analysis of some or all of the data associated with the project that researchers observe and record without prejudice. In support of this the way to arrive at the outcome could either be deductive or inductive. Deductive theory represents the commonest view of the nature of the relationship between theory and research. What one could think of scientific research could be referred to as deductive. According to Saunders, Lewis and Thornhill (2009) the dominant research approach in the natural sciences where laws present the basic explanation, allow for the participation of phenomena, predict their occurrence and therefore permit them to be controlled. It is worth mentioning that deductive conclusions are drawn through logical reasoning. The literature on FDI and banking are the subject of scrutiny; putting this into context, Bryman and Bell (2011) postulate that the researcher's main aim is not only to build hypotheses from existing knowledge but also to present them in operational terms. To test the posited hypotheses and the concepts being used the process shown in figure 5.0 was used for this research. Firstly, traditional and modern theories of FDI were used as a guide to focus the study. Secondly, once the fundamental theories were established the necessary research questions were devised to help provide the hypothesis for this research and then subsequently collecting data, analysing the findings, revising the hypotheses and finally concretising the research by confirming the theories, as stated earlier.

Figure 5.0 Process of deduction



Source: Bryman and Bell (2011)

The opposite direction of deductive research is referred to as inductive research. Theory would follow data rather than *vice versa* as with deduction (Saunders; Lewis and Thornhill, 2009). According to Bryman and Bell (2011) the general conclusions of any research are drawn from empirical observations. In research, theory is the outcome of the research. In this type of research, the process goes from observation findings, to theory building as findings are incorporated into existing literature, which thus improves theories. This type of research is associated with quantitative research. It is important to note that one cannot be perfectly sure about inductive conclusions as these are based on results from empirical observations. The next

section discusses the distinction between quantitative and qualitative paradigms.

5.5 Distinction between quantitative and qualitative paradigms

This section considers the use of quantitative and qualitative methodologies for undertaking a research. The strengths and weaknesses of the quantitative approach used for the research are considered in relation to other possible research strategies. According to Ghauri and Gronhaug (2005) the main difference between qualitative and quantitative research is not the quality but the procedures of research. The basic distinction between quantitative and qualitative research approaches is that quantitative researchers employ measurement whereas qualitative researchers do not (Bryman and Bell, 2011). Creswell (2008), however, attempts to define the distinctiveness of qualitative research, and therefore the way in which it can be distinguished from quantitative research can be problematic.

Table 5.2 shows the three distinctions between quantitative and qualitative data.

Table 5.2 Distinctions between quantitative and qualitative data

Quantitative data	Qualitative data
• Based on meanings derived from numbers	• Based on meanings expressed through words
• Collection results in numerical and standardised data	• Collection results in non-standardised data requiring classification into categories
• Analysis conducted through the use of diagrams and statistics	• Analysis conducted through the use of conceptualisation

Source: adopted from Dey (1993); Healey and Rawlinson (1994); author's experience

Creswell (2008) argues that there are similarities and differences between the two dominant paradigms, positivism and phenomenology, which inform research methodology: A study could be theoretically positivistic, but the data could be subjective or qualitative. In fact, this combination is common. On the other hand, a researcher may embrace the constructivist paradigm, but some of the supporting data may be quantitative or objective. Thus, the type of data and even the data analysis is not necessarily the same as the research paradigm. Qualitative data, methods and analyses, however, often accompany the constructivist paradigm and quantitative data, methods and analyses are usually associated with the positivist paradigm.

Beins and McCarthy (2012) believe that quantitative and qualitative research approaches have their limitations. They argue that the quantitative approach yields data which are relatively simple to process, but are limited in depth and hide ambiguities; the qualitative

approach yields a potentially large quantity of rich, complex data which may be difficult and time consuming to analyse.

Qualitative researchers, according to Barker *et al.* (2002) use language as the raw material for their research and quantitative researchers use numbers. Miller and Alvarado (2005:350) argue that qualitative researchers *seek to understand the world from the participant's point of view, by listening to or observing a person in a natural environment*. They can use a range of different tools to gather data, including the participant's own descriptions gained in an interview, or transcribed from a conversation between two or more people or from documents, including the researcher's field notes Cresswell (2008). There are a number of strengths to qualitative research, which include the fact that they allow the researcher to gain a deeper understanding of the phenomenon under investigation and to study it in great depth. Beins and McCarthy (2012) argue that qualitative is useful for generating hypotheses and for exploratory research, but also for understanding the nature in individual experiences or events. Qualitative data is often described as subjective and is concerned with phenomena that are difficult to classify. Examples given by Gliner and Morgan (2000) include pain and feelings, but the qualitative researcher does not attempt to quantify them. By contrast, quantitative research is often described as objective whereby the researcher quantifies and classifies the behaviour of participants (Beins and McCarthy 2012).

Bryman (2012) asserts that qualifying qualitative data has a number of advantages to a point. The above statement eloquently expressed by

Bryman, *et al*. (2007) is very relevant to this research. Firstly, it allows for scales and ranges to be identified. Cresswell (2008) use the example of depression. A health professional can diagnose a case of depression, by quantifying depression on a scale, allowing for comparison with non-depressed people. Secondly, it allows for change over time to be measured quickly and accurately. Thirdly, it enables scores to be compared with defined groups of participants and allows the nature of a phenomenon to be identified. It can also *allow research questions to be asked that provide more answers* into the causes of particular phenomena (Martin and Thompson, 2000:30). Having examined the strengths and weaknesses of both qualitative and quantitative research both approaches were adopted for this research. The decision to use a quantitative method was based on epistemological considerations. In terms of knowing the social world, Cresswell (2008) argue that all philosophical positions and their associated methodologies either implicitly or explicitly hold a view about social reality, thus the ontological shapes the epistemological. To meet the aims and objectives of the research it was necessary to use a method that examined variation between respondents.

A further consideration was the state of knowledge in the field. The ability to reach a large sample of the population within a limited amount of time available was advantageous. This approach lends itself to generalizability and the ability to *generate causal laws which have predictive powers* (Johnson and Duberley, 2000:20). Although it is possible to make generalizations from qualitative data, a quantitative methodology can yield a much larger sample in the same time frame. The causal nature of the research meant quantitative methods were the

most appropriate (Saunders; Lewis and Thornhill, 2009). To meet the aims and objectives of the research it was necessary to be able to compare responses for different groups of participants and, also, the research was based on the ability to identify relationships between phenomena. Moreover, questionnaires are extremely versatile and capable of gathering a large amount of information quickly and in a format that is readily processed (Zoltan, 2003). A positivist approach also allows the researcher to be objective about the research (Easterby-Smith *et al.* 2008).

5.6 Qualitative paradigm

As explained above, qualitative research is an epistemological tradition described as interpretivist, meaning that, in contrast to the adaptation of a natural scientific model in quantitative research, the stress is on the understanding of the social world through an examination of the interpretation of the world by its participants (Bryman, *et al.* 2007 and Bryman 2012). This paradigm was adopted for this research because the researcher's aim was to emphasise the representation of reality through the eyes of the participants. The researcher sought to focus on the respondents and it is their reflections and opinions that guided the research.

5.6.1 Case study approach

A qualitative case study approach was adopted to investigate the location characteristics and their effect on MNEs' location decisions in the Ghanaian banking sector. It was felt that case study would be one of the most effective ways to carry out this research because it

provides opportunities to interview senior executives (Managing Director (MD) /Chief Executive Officer (CEO)) and managerial and departmental staff involved both directly and indirectly in the decision-making process in the foreign banks in Ghana. Moreover, case study approach makes it possible to study the location characteristics and their effect on MNEs' location decision. In view of the paucity of literature on FDI location decisions in the banking sector, the author felt that this study should take the form of an exploratory study - a traditional strength of the case study approach as explained by Beins, and McCarthy (2012).

Bryman *et al.* (2007:62) claim that some of the best known studies in business management research are based on the case study approach. Cohen *et al.* (2000:81) outlined the benefits of case studies in investigating the causes and effects of real situations. It has become imperative to seek out and present multiple perspectives of the issues in this area; *discovering and portraying the different reasons* for the location characteristics and their effect on MNEs' locations decisions. It is, therefore, important that the chosen method fits the research methodology of the study (Saunders; Lewis and Thornhill, 2009). According to Bryman *et al.* (2007) case study research is not limited to the study of a single case as multiple case study designs have become the norm in business and research but are extensions of the case design. Multiple case study methods were adopted for this thesis because it was considered to be a comparative tool design for the purpose of comparing the cases that were included.

5.6.2 Research location

Significant research has been undertaken on the role of MNEs in achieving sustainable economic growth in Africa and in particular Ghana of which the focus is mainly on the manufacturing industry with less emphasis on the financial sector. To put this into context, authors such as Asiedu (2003), Mmieh and Owusu-Frimpong (2004), Debrah and Toroitich (2005), Asante (2006) and Mmieh, Owusu-Frimpong and Mordi (2012), argue that Ghana's ERP has received much scholarly attention and they describe how various reform programmes adopted are contributory factors to the economic growth in Ghana. The location chosen for the research is Ghana because it is representative of most of the countries in the Sub-Saharan region which adopted the IMF structural adjustment programmes, by deregulating most of their government controlled businesses. These policies were aimed at encouraging competition and ensuring efficient allocation of resources determined by market factors rather than governments. The sampling technique adopted for this study was purposive. To be more specific, the location choice was Ghana and Accra due to the fact that Accra is the Ghanaian capital city and has a high concentration of bank headquarters. The issues that arose from this study necessitated a systematic approach to discovering location characteristics and their effects on MNEs' decisions in the Ghanaian banking sector.

5.6.3 Interview design

Senior executives (MD/CEO) and managerial and departmental staff involved both directly and indirectly in the decision-making process in the banks in Ghana were interviewed. Policymakers (Bank of Ghana

(BOG), Ghana Investment Promotion Council (GIPC), Ministry of Finance and Economic Planning (MOFEP)) and senior members of staff in the Ministry of Trade and Industry) were also interviewed; they provided feedback on various aspects of FDI. The interviews helped the researcher to gather valid and reliable data that are relevant to the research question(s) and objectives stated in chapters 1 and 4.

There are different types of interviews: they may be formalized and structured using standardized questions for each respondent, or they may be informal and unstructured conversations (Saunders *et al.* 2009). The types of interviews include structured interviews; semi-structured interviews; unstructured or in-depth interviews, another typology cited in Saunders *et al.* (2009); Easterby-Smith *et al.* (2008). differentiates between standardized interviews and non-standardized interviews. Robson (2002), based on the work of Powney and Watts (1987), refers to further different types: respondent interviews and informant interviews.

According to Ghauri and Gronhaug (2005) the researcher or interviewer should consider the following before conducting the interview:

1. Prepare for the interview by analysing the research problem, what information you need to have from the interview and who is willing to provide the information.
2. Draft the interview questions and pre-test through pilot study.
3. Determine how much time is needed through the pilot study.
4. Approach the person you want to interview by telephone or other means.

5. Create a reason why the respondent should participate in the interview by explaining why they should participate; perhaps explaining the study would help the industry, country, policymakers or the respondent firm.
6. On the day of the interview the researcher should introduce the study to the respondent.
7. The interviewer should assure confidentiality for the respondent.
8. The interviewer should use clear and simple language and avoid using terminology not understood by the respondent.

The interview questions for this thesis were divided into 2 main sections.

1. The background section sought to discover some general information about the respondents and main objectives of the interviewees.

2. Section two sought to examine the location characteristics that determined the MNEs' decision to enter the Ghanaian banking sector.

Table 5.3 presents the demographic characteristics of the respondents.

Table 5.3 Distribution of the demographic characteristics of the respondents interviewed

List of Informants	Department / Position within the Bank/Organisation	Time in employment within the Bank/Organisation (years)	Gender (Sex)	Total
ALPHA BANK				
A1 - XMD1	Managing Director	5	Male	
A2 – YD1	Director	3	Male	
A3 – YD2	Director	3	Male	
A4 – YD3	Director	4	Female	
A5 – YD4	Director	4	Male	
A6 – YD5	Director	2	Male	
Subtotal				6
BRAVO BANK				
B1 - XMD1	Managing Director	4	Male	
B2 – YD1	Director	6	Male	
B3 – YD2	Director	5	Male	
Subtotal				3
CHARLIE BANK				
C1 - XMD1	Managing Director	3	Male	
C2 – YD1	Director	5	Male	
C3 – YD2	Director	5	Female	
C4 – YD3	Director	4	Male	
Subtotal				4
DELTA BANK				
D1 - XMD1	Managing Director	3	Male	

D2 – YD1	Director	2	Male	
D3 – YD2	Director	4	Male	
D4 – YD3	Director	5	Male	
D5 – YD4	Director	6	Male	
D6 – YD5	Director	3	Male	
Subtotal				6
ECHO BANK				
E1 – YD1	Director	5	Female	
E2 – YD2	Director	4	Female	
E3 – YD3	Director	6	Male	
E4 – YD4	Director	3	Male	
E5 – YD5	Director	4	Male	
E6 – YD6	Director	2	Male	
E7 – YD7	Director	5	Male	
E8 – YD8	Director	1	Male	
E9 – YD9	Director	5	Male	
E10 – YD10	Director	4	Female	
Subtotal				10
FOXTROT BANK				
F1 - XMD1	Managing Director	7	Male	
F2 – YD1	Director	5	Male	
F3 – YD2	Director	6	Male	
F4 – YD3	Director	4	Male	
F5 – YD4	Director	5	Male	
F6 – YD5	Director	5	Male	
Subtotal				6

GOLF BANK				
G1 - XMD1	Managing Director / CEO	5	Male	
G2 – YD1	Director	3	Male	
G3 – YD2	Director	4	Male	
G4 – YD3	Director	4	Female	
G5 – YD4	Director	5	Male	
Subtotal				5
POLICYMAKERS				
BOG1	Head of Research	8	Male	
BOG2	Policy Analyst	7	Male	
BOG3	Senior Economist	10	Male	
BOG4	Economic Researcher	6	Female	
BOG5	Senior Economist	6	Male	
MOFEP				
MOFEP1	Senior Economic and Investment Consultant	7	Male	
MOFEP2	Economic Consultant	5	Female	
MOFEP3	Economic and Financial Advisor	7	Male	
GIPC				
GIPC1	Head of Department	5	Male	
GIPC2	Senior Officer	6	Male	
MOTI				
MOTI1	Economic Researcher	4	Male	

MOTI2	Economic Researcher	6	Male	
Subtotal				12
				52

All the respondents who agreed to participate in the interview were screened on the basis of eligibility criteria in order to ascertain whether the interviewees were directly involved in the decision-making process before locating in Ghana. In total 52 respondents were interviewed as shown in table 5.2 above. These were respondents who were in their various roles prior and post the decision to locate. Efforts were made to minimize the possibility of bias occurring by seeking respondents from different banks. The interviewees were asked to share their views on a range of issues regarding location characteristics (refer to appendices VII and VIII). Managing directors and directors were interviewed given that they were most likely to be involved in the decision-making process. The fieldwork took a period of 3 months from the beginning of June 2011 to the end of September 2011 to collect the required data for this thesis. All the interviews were conducted in English and each semi-structured interview for this study lasted between 30 to 45 minutes.

The researcher commenced the interview by explaining to the respondents the aim and objectives of the research. The interviewees were assured of confidentiality and anonymity. The interviews were conducted at the respective organisation site or other preferred location. By adopting face-to-face interviews, the researcher was well positioned to witness the non-verbal behaviour of the respondents. The interviews were tape recorded with the consent of the

interviewees using a predetermined but flexible interviewing protocol. After each interview, a contact form was used to summarize the main themes, concepts, issues, or questions that emerged. After completing the interview with the respondents, the next task was to analyse the results; which are to be found in the next chapter of this thesis. This was done in a systematic way by analysing the content of the answers, looking at the same time for recurring themes Beins, and McCarthy (2012) and Cresswell (2008). The interview questions were grouped into themes which made it easy to identify trends and themes for analysis. The data was simultaneously analyzed. Reflection, interpretation and analysis of the detailed notes yielded the findings of the qualitative data reported in this research.

5.6.4 Pilot study

Once a researcher has decided to go ahead with a piece of research it is very important to undertake a pilot study. For example, once a questionnaire has been developed, each question must be validated and the questionnaire as a whole must be rigorously evaluated before final administration (De Vaus, 2005). Evaluating the questionnaire is known as a pilot testing or pre-testing. According to Bryman and Bell (2011) pilot testing the research instrument can control many of the problems found in questionnaires and interviews.

Undertaking a pilot study gives the researcher some confidence that the survey questions operate well, that the research instruments function well, and it allows them to detect any flaws in the questionnaire (Bryman and Bell, 2011). Czaja and Blair (2005) Easterby-Smith *et al.* (2008) and Bryman (2012) all argue that in a

pilot study, a number of interviews or questionnaires are undertaken using the same methods planned for the main study. When the cost of the main study is high or when some of the measures are complex or unfamiliar to the researcher it may be risky to proceed to the main data collection without a pilot study. In this research, a pilot study was conducted in order to test whether the questions posed in the questionnaire were clear and concise, and whether the respondents were comfortable with the interviewing techniques. Most importantly, a pilot study was used to establish whether access to respondents would be possible given the nature of the sensitivity and confidentiality issues in the bank. According to Bryman and Bell (2011) the following are the advantages of pilot study. 1) a pilot study can help the researcher to identify how the questions flow and the logic of the questions. If some questions are out of place they may be moved around when necessary; 2) when the main study uses mainly closed questions, open-ended questions can be asked in the pilot study to come up with fixed choice answers; 3) a pilot study can provide necessary training for the researcher doing the research. It provides some experience and allows the researcher to become confident when conducting the main interview; 4) questions that cannot be understood or questions that are often answered during the pilot study could be eliminated or rephrased in the main study; and, finally, 5) the researcher can identify any questions that would make the respondents feel uncomfortable such as sensitive questions that can be eliminated from the questions during the main study

In this research a questionnaire was developed based on the main research aim to investigate the location characteristics and their effect on MNEs' location decision. To further expand the research question

factors and sub-factors from the FDI literature aided in setting and designing the questions. The questions were pre-tested on a number of bank employees to check for clarity, consistency, and, where appropriate, changes were made. Academics and senior executives in the banking sector in Ghana reviewed the questions; their feedback and comments provided clarity with a strong content therefore making the completion of the questionnaire both easier and attractive.

A pilot study of the questionnaire was conducted using semi-structured interviews discussed above. Most studies on FDI and location decision on banking are centred on building quantitative analysis on bank performance indicators. This has led to comparative research being undertaken with country comparison on the level of financial market development or the performance of foreign and domestic banks. In recent years, research has been focused on the emergence of country-level assessment of foreign and domestic banks. Nevertheless, the majority of the cases deal with empirical computable data and easily recordable data analyses. The pilot study provided the researcher with useful suggestions and feedback. This helped to shape the structure, content, and wording of an active and easily understandable questionnaire. The results of the pilot study have not been included as part of the analysis as the pilot study was only done to improve the questionnaire and to ensure the reliability of the tools and instruments used in this study.

5.6.5 Cover letter

A cover letter is an integral part of any research undertaken and is crucial in inducing a high and acceptable response rate. According to

Taylor (1998) a cover letter must be created to encourage respondents to take it seriously. A cover letter must seek to involve the respondents and inform them why they have been selected, what is in it for them, and why it is important to involve them. It should also ensure prospective respondents are either anonymous or confidential (Easterby-Smith *et al.* 2008 and Bryman (2012), acknowledging that respondents are doing the researcher a favour (altruistic appeal) and striking a note of urgency, finishing with a thank you. Taylor (1998) further states that two types of appeal are generally used in research. Firstly, egoistic appeal (study benefits the recipient) and secondly, altruistic appeal (social utility or help to the researcher). For this thesis the altruistic appeal was used because this was deemed important. The researcher needed help from the respondents in order to exploit the research questions. Childers *et al.* (1979) claim that using the altruistic appeal generates a higher return than using the egoistic appeal. Peterson (1975) avers that a quicker response was elicited where a university rather than a business was identified as the source of a questionnaire. A cover letter was provided on an official Brunel University letterhead (see appendix V). Given the sensitivity of the issues discussed in the research some banks in the past have been very suspicious of research into their business dealings and resistance could have been much intensified. With the author's background, however, and experience in banking coupled with an assured strict confidentiality stated in the cover letter it helped in encouraging a higher response rate.

5.6.6 Content analysis

This is an objective and systematic approach in analysing information and responses that seek to quantify content in terms of predetermined categories in a replicable manner Bryman *et al.* (2007). It is used to identify specified characteristics in patterns of messages. According to Campos *et al.* (2004) content analysis becomes applicable to many different forms of unstructured information such as transcripts of semi-structured and unstructured interviews and qualitative case studies of organizations. The interview and the questionnaire were structured into themes as they emerged from the discussions. The major points that emerged from the data collection which came under the themes were re-grouped into themes that would allow for systematic analysis of the responses (Bryman *et al.* 2007). The themes that emerged were categorized to enable the content to be analysed.

The data gathered was then regrouped to address the research question based on the recommendation by Yin (2003). The themes enabled the researcher to better understand the location characteristics and their effect on MNEs' decisions. Seven case study banks were used to cross-compare the themes to gain a better understanding. Within a period of 3 months of empirical research in Ghana, a picture began to build up which fuelled the desire to seek more information to assess the trends. The categorization was done on the standard procedures proposed by Bryman *et al.* (2007) and Saunders *et al.* (2009). This study focussed more on the location characteristics, which adversely made the decision-makers, locate in Ghana.

5.7 Quantitative paradigm

Quantitative paradigm, as the term suggests, concerned with the collection and analysis of data in numeric form. It tends to emphasize relatively large-scale and representative sets of data. The quantitative element of this research began with the distribution of a questionnaire. Following Atthirawong and MacCarthy (2003) the questions in the questionnaire were adapted in this study to ascertain whether, in the case of Ghana, the location factors are the characteristics of banks' FDI location decisions. Given that Atthirawong and MacCarthy (2003) focused on the motivations for firms seeking to manufacture across national frontiers, this research focuses on the banking industry.

5.7.1 Questionnaire layout and presentation

The design of the questionnaire plays a very important role regarding the quality and reliability of the data collected. The design and the way the tools were administered in this research needed to be adapted according to the respondents' background and educational level. In constructing a questionnaire Ghauri and Gronhaug (2005) state that the following guidelines: 1) the questions should be phrased politely; 2) the questions should be formatted in a correct and logical order from general to specific questions; 3) long questions should be avoided as respondents may become tired or lose interest in answering; 4) every participant should be able to understand the questionnaire and the questions should have the same meaning to each of them; 5) the questions must be asked in very simple and brief language and should not have ambiguous meanings; 6) each question

should be limited to asking about one variable or one element; 7) the questions should take into account the level of knowledge, education, culture, etc., of the respondents when formulating the questions, and should avoid any sensitive questions that may prevent them from answering; 8) the layout of the questionnaire should be smart and well organized, in order to motivate the respondents to answer; 9) the questions should be precise and not be too broad, so that respondents do not give more than one answer; 10) the length of time needed to complete the questionnaire should be around 30 minutes on average, taking into consideration the busy lives of and limited time available to the participants; 11) the questions should not lead the respondents with regards to answer or opinion; 12) participants should be assured of privacy by not asking for their name or for information about the firm they work for; 13) the questionnaire should cover all important issues. It should produce sufficient data for meaningful analysis and interpretation; 14) the questions should be constructed in a format that does not permit the respondents to miss a question; and, finally, 15) the questionnaire should be pre-tested by an advisor, colleague or friend before starting the official or main questionnaire, in order to eliminate any mistakes and avoid any of the issues raised above.

Bryman (2012) argue that the process of designing a survey must include relevant areas and issues; this should include drawing an outline based on the theoretical framework. The visual presentation of a questionnaire is crucial as it will be very much dependent on the appearance as to whether a respondent would treat a questionnaire with any degree of importance and seriousness. Emphasis was placed on presentation and layout of the questionnaire which in the long run also helped the author during the analysis process. According to

Easterby-Smith *et al.* (2008), empirical research recognizes the importance of a good layout and presentation. The questionnaire (see appendix IV) contained headings and key information the author needed to acquire from the respondents.

The planning and design of the research methodology for this study has been carried out based on location factors. Managers employed in the banking industry in Ghana answered the questionnaires. The respondents were managers directly involved or who played a role in the decision-making process when Ghana was chosen as an investment location. The questionnaire highlights the level of significance of FDI location factors in the banking sector in Ghana. The respondents were asked to rate the location factors based on a five - point Likert scale (1 = very insignificant, 2 = insignificant, 3 = neutral, 4 = significant and 5 = very significant). They were also asked to rate the significance of each location factor in relation to Ghana as an attractive location destination using a five point Likert scale. In justifying why the above methodology was used in comparison with previous studies on FDI location, the following are significantly important. Firstly, studies have not been done in providing any mechanism for prioritising location factors in terms of significance of the location decision on FDI in the Ghanaian banking sector. Secondly, most studies on FDI assume that the importance of location factors could be applied to all countries and industries. Thirdly, research of this type has not previously been undertaken in the banking sector in Ghana.

5.7.2 Sample frame of the quantitative data set

This section outlines the principles and procedures of obtaining accurate samples to enable research to be focused. According to Czaja and Blair (2005:22) the population is *the group or aggregation of elements that one wishes to study, the group to which we want to generalise the results of our study*. De Vaus (2004) also defines population as the set of units that the sample is meant to represent. A sample is obtained by collecting information about some members of the population. It is very important to note before selecting the sample that the population is properly defined. Once the scope of the population has been established the researcher can establish a sampling frame. De Vaus (2005) states that the sampling frame is a list of the population elements. It was from this that a sample was selected to scrutinize the location characteristics and their effects on MNEs' location decisions in the Ghanaian banking sector. The question relating to sample size often comes up: *How large should a sample be?* Of the 27 banks licensed by BoG, 14 of the banks have majority ownership as foreign banks. The remaining 13 have majority ownership as local banks. Out of the 14 banks, 7 banks positively participated in the survey with an approximately 50% response rate. A structured questionnaire containing 5 major factors and sub-factors of the significance of Ghana as an attractive location destination were administered. The total sample size for the study was 130 which comprised of 118 senior executives (MD/CEO) and managerial and departmental staff involved both directly and indirectly in the decision-making process in the foreign banks in Ghana as indicated in appendix IX. According to Bryman and Bell (2011), there is no simple answer to this question, as it depends on a number of considerations

and there is no definite answer to this. The sample size of the study would be affected by the cost and the time of the study. Czaja and Blair (2005) claim that what really matters when it comes to sample size is the absolute size of the sample, not its relative size.

A fundamental goal of research is to be able to generalize, in other words to be able to comment reliably about a wider population on the basis of the findings in a particular study. According to De Vaus (2005) there are two types of generalization. Firstly, *statistical generalization:* this is where statistical generalization are made using probability theories to estimate the likelihood that the patterns observed in a smaller group(s) (sample) will hold in larger groups (population). Probability theories therefore enable researchers to discover, with a degree of confidence, how likely the patterns in a sample will be reflected in the wider population. Secondly, *replication:* this method is used in experimental research. Most experiments in which people participate are not based on statistically representative samples. One cannot, therefore, use statistical generalization as a basis for generalization from experimental results by repeating or replicating the experiments in different circumstances and with different participants. Participants become more confident if the findings are replicated regardless of the context, method and participant characteristics.

To obtain the findings reported in this thesis the quantitative data set were anlayzed using descriptive statistics. There are different types of statistical techniques which can be used to analyse data. Following Pallant (2007) the following were used for this research, a combination of data analysis techniques such as t-test, Spearman

ranking and Pearson Chi-squared test. The Statistical Package for Social Science (SPSS) version 17 was used to analyse the data.

5.8 Moral and ethical contribution

The views of the respondents could be said to reflect on the various beliefs and aspirations concerning challenges that Africa faces in attracting financial FDI inflows, due to mainly negative perceptions of Africa and what it offers globally. The views of the respondents confirm the understanding of reality by Bryman and Bell (2011). Their responses were based on their knowledge of the history, present knowledge of the condition of the industry as well as future expectations.

Saunders *et al.* (2009) advise that most of the managers have work experience in different countries which implies that their understanding of different cultures, values and norms also inform their decisions. The chosen location for this research has a considerable number of high-profile respondents with many years of experience from different countries with different beliefs. Their strong will to see the continent of Africa in general and Ghana in particular succeed in the drive for increased FDI inflow gives a high level of moral ethical weight to empirical evidence. The evidence all through this research suggests and reflects reality (see appendix VI – Ethical form Brunel University).

5.9 Limitation of the empirical research

The main limitation is that this study deals with processes and interviewees may have rationalized their responses (Evered and Louis, 1981). The focus of this study created an inevitable bias towards the respondents of the bank and policymakers who were responsible for decision-making solely basing their decisions on the major location characteristics. Thus, the opinion of other responsible individuals is underrepresented in this study. In addition, day to day constraints within the banking sector also limited access to other senior management staff to give their opinion on the research.

There is the tendency of policymakers to provide a different picture so as actors can appear to be in control over the issue of location characteristics and FDI inflows into Ghana. With respect to the credibility of the empirical findings, an effort was made to interview respondents who were at different levels and worked in different functional areas within their respective organization. Furthermore, lower level management were unable to provide their views on operational strategies, as they did not have the opportunity to do so. Their opinions though somewhat unreliable could provide some feedback to senior management or the decision-makers on the effect of their decision to locate in Ghana.

5.10 Summary

In conclusion the purpose of this chapter has been to describe and explain the epistemology, methodology and the research method for this study. The chapter further examined the process of designing the research questionnaire and explained the process of designing the reasons for the choice of the number of cases for the purpose of developing theory (Esenhardt *et al.* 2007 and Saunders *et al.* 2009). It has also been necessary to mention that the overall research methodology required tweaking where necessary to meet the changing demands of the research in order to obtain accurate information for the analysis of the research questions. Chapter 6 provides the empirical evidence for this research

Chapter 6: Data analysis – empirical analysis

6.0 Introduction

This chapter presents and analyses the key findings of the empirical study conducted in Ghana with the aim of answering the research question identified in the introduction and the theoretical analysis of chapters 2, 3 and 4. In analysing the major findings of this thesis, the following terms *financial MNEs* and *foreign banks*, *factors* and *characteristics* may be used interchangeably. The next section of this chapter presents a brief background of the information on the banks in Ghana that were sampled and used as case studies. This will be followed by an examination of the location characteristics and their effect on MNEs' location decisions in the Ghanaian banking sector. The final section will demonstrate how the findings have answered the research question. Given the sensitive nature of the issues discussed with the banks, phonetic alphabetic names were used to replace the names of the banks used for this study.

6.1 Profile of case financial MNEs

Prior to the analysis and presentation of the major findings of this thesis, it is important to provide a brief overview of the banks investigated in this study. While large cross country studies are able to identify the factors that drive financial FDI and examine their effect across different countries, they cannot present a thorough in-depth investigation, making the country case study the most appropriate method. Attention is given; however, to how Ghana's financial sector reforms and the current economic environment have affected inflows

of financial FDI in Ghana.

6.1.1 Alpha Bank

Alpha Bank, one of the leading banks in Ghana, was incorporated in May 2009 as a private limited liability company. The bank is licensed to carry out universal banking services and provide a comprehensive bouquet of financial and non-financial services to individual and corporate customers. The bank is part of a group made up of nine (9) African markets, spanning sub-Sahara's three monetary zones and the United Kingdom. The bank has significant shareholding from Ghanaian investors as well as diversified shareholdings held by individual and foreign institutional investors including a pre-eminent financial services institution ranked amongst the top 10 banks in Africa.

With over 39 branch offices and 43 ATMs spread across the country, Alpha Bank has leveraged its geographical network to showcase its expertise in treasury, cash management, trade finance and technology driven banking solutions. The bank is also leading the way with investments in key sectors of the economy including telecommunications, oil and gas, manufacturing and agriculture. Some of the key indices of the bank, as at March 2012, included, total assets: GHC 929,557M; paid-up capital: GHC 118,296M; and, liquidity ratio: 62.65%. As one of the most capitalized banks in the industry, it also facilitates infrastructural development through the provision of necessary funding and credible partnership with the government and stakeholders in the economy. The bank's growing profile, as a leading

bank in Ghana, is further underscored by its commitment to industry growth and sustainability as evidenced by its pioneering role in industry redefining initiatives; particularly in the bonds trading market and responsible business practices.

Alpha Bank maintains a robust risk management framework and technology infrastructure that guarantees customers and other stakeholders' superior returns on a daily basis. Its chain of customer focused products and services ensure that the bank is able to develop banking solutions that meet the needs of multiple stakeholders simultaneously. This approach guarantees mutually beneficial outcomes through the value chain of large corporate organizations including subsidiaries, partners, suppliers, distributors and employees.

The bank has business relationships and partnerships with leading international and multi-lateral organizations. Alpha Bank has continuously displayed a strong commitment to community development by leveraging its people and financial resources to invest in education, health, and the arts as part of its corporate social responsibility. More than 80% of the staff is involved in voluntary community programmes annually. In 2010, Alpha Bank received the *Most Socially Responsible Bank* Award at the 10th Ghana Banking awards ceremony. The bank also received awards in *Agricultural Financing* and *Financial Performance* categories.

6.1.2 Bravo Bank

Bravo Bank is a member of a group, and is a fully fledged top tier bank. It began operations in 1999 and has since developed structures and strong pillars which have ensured the consistent growth of its business and brand in Ghana. Since 2007, Bravo Bank has expanded its branch network to almost every region in Ghana and has 23 branches across the country. Bravo Bank is a tier one bank and the sixth largest bank in terms of assets. The bank was voted the top company in Ghana in 2009 in the prestigious Ghana Club 100 Company rankings (conducted by the Ghana Investment Promotion Council). It was also rated the leader in financial services, for two consecutive years, 2008 and 2009.

Bravo Bank has two main business units; these are *Personal and Business Banking* and *Corporate and Investment Banking*. The personal and business banking business unit provides retail services and takes care of the transactional and financial services needs of individuals, small and medium scale enterprises and other businesses. The department offers a wide range of products and services tailored to suit the specific needs of customers. The personal and business banking function is divided into the following units. The personal banking unit takes care of individual customers through the branch network and other service channels and provides quality financial services and products. The business banking unit serves small and medium scale enterprises, commercial entities and provides quality financial solutions to assist customers to grow their businesses. The business banking unit offers products and services ranging from transactional to loan facilities and provides advisory services to help

start up business growth and to help existing businesses to flourish. The wealth unit forms the third pillar of personal and business banking. It has a private banking unit dedicated to high net worth individuals and provides high quality banking services to corporate leaders and professionals.

The corporate and investment banking team on the other hand focuses on the needs of corporate clients. The unit's capabilities stretch across a broad range of services and banking innovations including project financing, loan structuring for corporate institutions, trade financing, foreign exchange and treasury services, custodial services, investment banking, assets management and a brokerage service. Bravo Bank's global market unit treasury offerings and services are without comparison in the market. The corporate and investment banking team has a remarkable history in arranging significant deals and providing customized financial services to clients. Leveraging the network of Bravo Bank Group, the corporate and investment banking team led the arrangement and syndication of a US$1.5 billion pre-financing deal for the Ghana Cocoa Board for the 2010-2011 cocoa season. Corporate and investment banking has facilitated the financing of projects in oil and gas, power, infrastructure, and communications sectors among many others.

Bravo Bank has the capacity to take excellent care of the trading needs of its clientele, namely foreign institutional clients, local institutional investors, individuals or international retail investors on the Ghana Stock Exchange. This is through the newly established brokerage house, which is part of the bank's investment management services, which is a fully owned subsidiary.

Leveraging Bravo Bank Group's extensive operations in 18 African countries and 13 countries outside the continent, coupled with its deep local insights, the bank offers customers access to extensive opportunities and world-class banking anytime, across its network. The Group recently cemented its connections with China, when the International Commercial Bank of China (ICBC) the world's largest bank, acquired a 20% stake in the Group. Responsible corporate citizenship is very much valued at Bravo Bank. This is reflected in the Bank's business principles and practices, and its community support policies and programmes. By focusing on education, health and entrepreneurship among others, the bank ensures that it remains environmentally, culturally and socially relevant.

6.1.3 Charlie Bank

Charlie Bank was registered in Ghana in October 2004 and obtained its universal banking licence from the Bank of Ghana on 23 February 2006, thereby paving the way for the commencement of operations. The bank is a subsidiary of one of the foremost banks in Nigeria with a Triple A rating; the first indigenously owned sub-Saharan bank to be quoted on the London Stock Exchange. In 2008, it became the first new generation indigenous African bank to obtain a banking licence to carry out fully fledged commercial banking activities in the United Kingdom. Charlie Bank currently owns 95.72% of the issued share capital of the Bank with Nederlandse Financierings-Maatschappij Ontwikkelingslanden NV (FMO) holding 2.14% and a Ghanaian business entrepreneur, holding the remaining 2.14%. The bank increased its paid up capital from GH¢10 million to over GH¢76

million well ahead of the Bank of Ghana's deadline of 31 December 2009. Apart from giving the bank a competitive advantage in terms of business capacity, meeting the new capital requirement early is a reflection of the bank's belief in the Ghanaian environment and its readiness to contribute meaningfully to the country's development. Within the five years of its operations in Ghana, it has also become a reference point for good business practice and a role model in the financial services industry. The bank is built on the strengths of its staff, its structures, policies and procedures. Out of the total staff of 490 people, only three members are Nigerians, the rest are all Ghanaian, reflecting the bank's preparedness to invest and develop the country's human capital. The bank leverages on its robust IT infrastructure to roll out customized e-banking products and services to meet its Ghanaian customer needs, anytime and anywhere within and outside Ghana. The bank also has an open door policy. This reinforces the informal atmosphere and breeds a feeling of equality. Everyone is accessible and approachable, working in open offices alongside their colleagues. In addition, it has a flat organizational structure that engenders effective communication and prompt decision-making throughout. In 2010, the bank won the highly coveted Bank of the Year 2009 Award in Ghana together with the following eight other major category awards: Best Bank, IT / Electronic Banking; Best Bank, Retail Banking; Best Bank, Short Term Loan Financing; Best Bank, Medium Term Loan Financing; Best Bank, Product Innovation; Best Bank, Advisory Services; Best Growing Bank; and, 1st Runner Up Best Bank, Customer Care.

6.1.4 Delta Bank

Delta Bank commenced operations in Ghana in 2011 after it acquired a majority interest in another bank in Ghana. With this acquisition, Delta Bank group has consolidated its presence within the West African region and is therefore strategically well placed to facilitate cross–border trade within the larger West African region. It has a presence in 14 African countries namely Benin, Burkina Faso, Burundi, Democratic Republic of Congo, Djibouti, Ghana, Ivory Coast, Kenya, Madagascar, Mali, Niger, Senegal, Tanzania and Uganda.

Delta Bank Group owns three leasing companies, a housing finance company, a stock brokerage company, two investment companies and an information technology subsidiary. The majority shareholder is Bank Maroccaine du Commerce Exterieur (BMCE Bank). BMCE Bank is Africa's twelfth (12th) largest bank and is actively involved in capital market, asset management, stock brokerage, consumer credit, asset leasing, credit insurance, custody and advisory services. Delta Bank is a commercial bank, offering a wide range of financial products and services that covers sectors of retail, SME and corporate banking.

6.1.5 Echo Bank

After five years of operations in Ghana, Echo Bank, which started with only five branches, has opened its 28th branch. Echo Bank has a diversified portfolio of corporate banking units equipped with the right staff to handle a broad spectrum of financial advice ranging from

energy, exports, mining and cocoa, manufacturing, and telecoms to trading. The corporate banking units also support business with financing and critical financial advice on oil and gas. In March 2012 Echo Bank acquired a competitor in Ghana.

6.1.6 Foxtrot Bank

The dual objective of Foxtrot Bank is to build a world-class pan-African bank and to contribute to the economic and financial integration and development of the African continent. Foxtrot Bank, a public limited liability company, was established as a bank holding company in 1985 under a private sector initiative spearheaded by the Federation of West African Chambers of Commerce and Industry with the support of ECOWAS. In the early 1980's the banking industry in West Africa was dominated by foreign and state-owned banks. There were hardly any commercial banks in West Africa owned and managed by the African private sector. Foxtrot Bank was founded with the objective of filling that vacuum.

In October 1985, Foxtrot Bank was incorporated with an authorized capital of US$100 million. The initial paid up capital of US$32 million was raised from over 1,500 individuals and institutions from West African countries. A Headquarters' Agreement was signed with the government of Togo in 1985 which granted Foxtrot Bank the status of an international organization with the rights and privileges necessary for it to operate as a regional institution, including the status of a non-resident financial institution. Foxtrot Bank commenced

operations with its first subsidiary in Togo in March 1988. Today, Foxtrot Bank is the leading pan-African bank with operations in 32 countries across the continent, more than any other bank in the world. It currently operates in countries in West, Central, East and Southern Africa, namely Angola, Benin, Burkina Faso, Burundi, Cape Verde, Cameroon, Central African Republic, Chad, Congo Brazzaville, Democratic Republic of Congo, Côte d'Ivoire, Equatorial Guinea, Gabon, Ghana, The Gambia, Guinea, Guinea Bissau, Kenya, Liberia, Malawi, Mali, Niger, Nigeria, Rwanda, Sao Tome & Principe, Senegal, Sierra Leone, Tanzania, Togo, Uganda, Zambia and Zimbabwe. The Group also has a licensed operation in Paris and representative offices in Johannesburg, Dubai and London. Foxtrot Bank operates as *One Bank* with common branding, standards, policies and processes to provide a consistent and reliable service across its unique network of 1,151 branches, 1,487 ATMs, and 2,151 POS machines servicing 8.4 million customers. They have an integrated information technology platform, with all of its operations successfully migrated onto a single core banking application: Oracle FLEXCUBE. With 23,350 employees as at end of 2011, the Group is the largest employer of labour in the financial sector industry in Middle Africa.

Sustainability is at the core of its mission and the vision of building a world-class pan-African bank that contributes to the integration and socio-economic development of the continent. It take the view that the long-term success of Foxtrot Bank is intertwined with the sustainable development of the economies, societies and environment that it operates in. In 2011, the Group adopted an integrated and comprehensive approach to sustainability and created a common

framework. The framework depicts sustainability such that its business operational model ensures effective, efficient and sustainable utilization of economic, social, human and natural capital. This framework reflects its commitment to drive economic transformation in Africa while protecting the environment by being a socially responsible financial institution with a world class professional reputation. Each strand forms the building block for ifs integrated sustainability. Foxtrot Bank has recently merged with a major local competitor.

6.1.7 Golf Bank

Golf Bank is a privately owned African bank incorporated in April 2005 under the Ghana Banking ACT 2004 (ACT 673) and a subsidiary of a PLC. It seeks to become a leading, technology-driven, global financial institution, providing a distinctively unique range of financial services. The overall vision of the bank is to make its brand a reputable international financial services network recognized for innovation, superior customer service and performance while creating premium value for all stakeholders. In Ghana, its vision is *to be a reference point in the provision of flawless, prompt and innovative banking services in the Ghanaian Banking industry* (MD of Golf Bank, 2010). It also sets out to differentiate itself in the banking industry through its service quality, drive for a unique customer experience and diverse calibre of its client base. Golf Bank as a one-stop financial institution and is set *to continue to invest in the best people, technology and environment to underscore their commitment to achieving customer enthusiasm* (MD of Golf Bank, 2010).

6.2 Quantitative evidence of FDI location characteristics

This section looks in depth at the descriptive data used for the level of significance of FDI location factors in the banking sector and the relevance of each of the location factors in relation to Ghana as an attractive location using frequency tables. Bryman and Bell (2007) claim that a frequency table provides information about the number of people who participated in the study and the percentage belonging to each of the types for the variable in the survey. In this study, frequency tables are used to explain some sections of the analysis.

6.2.1 Location factor significance

The descriptive data for the location factor significance are summarized in table 6.1 the main location factors and sub-factors are also included in the table. The response scale in numbers and percentages for each location factor(s) in the questionnaire are shown in the mean, the standard deviation and the total number of responses for each location factor. The description of the sub-location factors based on the mean for each location factor is compared to the other factors. Table 6.1 summarizes the significance of the location factors with the average score and standard deviation. The political and legal framework factor has an average score of 4.36 (0.32), and it was considered as a very significant factor. Other significant factors were infrastructure and macroeconomic policy with average scores and standard deviations of 3.97 (0.59) and 3.93 (0.53) respectively. For market factors, the sub-scales such as market growth, and the level of competition in the host market were very significant factors. Two other factors were, however, insignificant. Similarly, labour factors

were found to be insignificant in the Ghanaian banking industry with an average score and standard deviation of 2.06 (0.82).

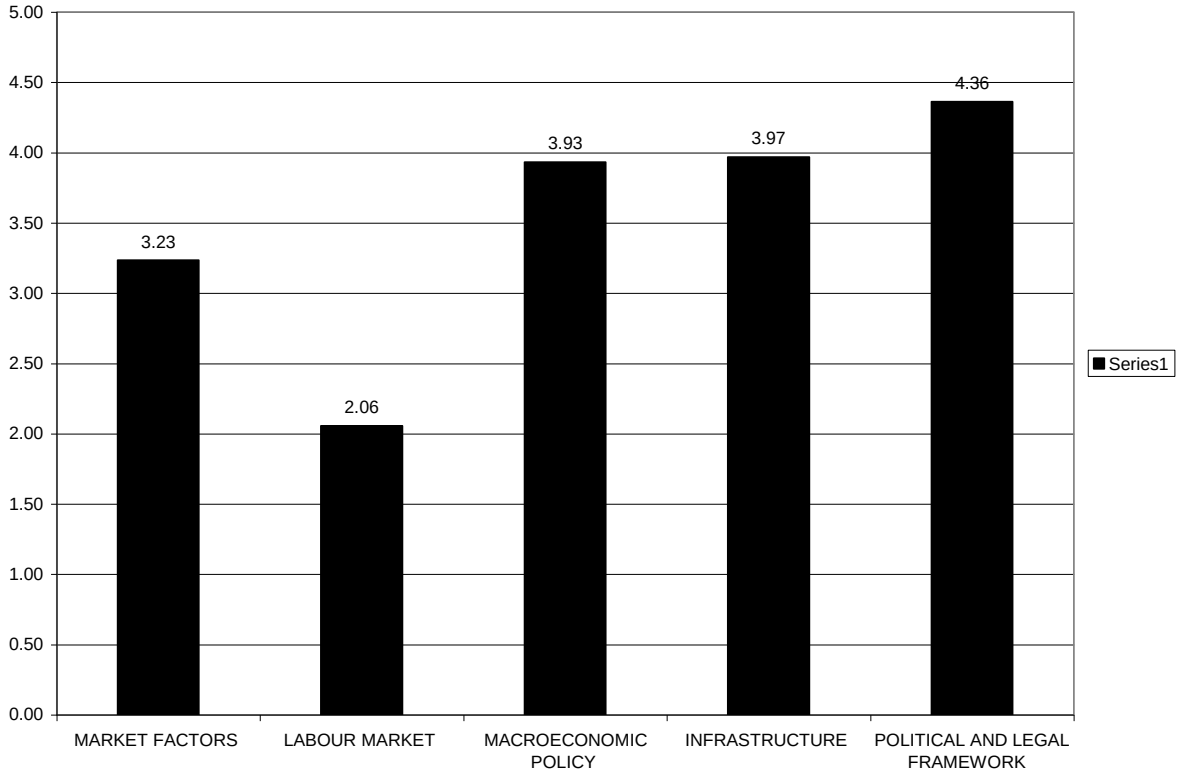
Five major factors were used to constitute the significance of the location factors; these were market factors, labour market, macroeconomic policy, infrastructure and political and legal framework. Market factors comprise of: (a) large size of the host market; (b) market growth in the host market; (c) level of competition in the host market; and, (d) market familiarity in the host market. Macroeconomic policy comprises of three sub-factors, which are: (a) economic stability in the host market; (b) economic growth in the host market; and, (c) exchange rate in the host market. Infrastructure factors comprise of two sub-factors, these include: (a) level of infrastructure in the host market; and, (b) geographical proximity in the host market. The political and legal framework comprises of: (a) political stability in the host market; (c) international trade agreement in the host market; (c) government tax incentive to foreign banks; (d) diplomatic ties in the host market; and, (e) legal and regulatory system in the host market.

Table 6.1 significance of the location factors

	Response Scale												Scale Descriptive		
Major and sub-Location Factors	**Very insignificant**		**Insignificant**		**Neutral**		**Significant**		**Very significant**		**No Response**		**Mean**	**SD**	**n**
Market Factors													3.23	0.48	130
Large size of the host market	14.00	10.77%	78.00	60.00%	37.00	28.46%	1.00	0.77%	0.00	0.00%	0	0.0%	2.19	0.62	130
Market growth in the host market	0.00	0.00%	0.00	0.00%	7.00	5.38%	80.00	61.54%	43.00	33.08%	0	0.0%	4.28	0.56	130
Level of competition in the host market	0.00	0.00%	3.00	2.31%	10.00	7.69%	58.00	44.62%	59.00	45.38%	0	0.0%	4.33	0.72	130
Market familiarity in the host market	34.00	26.15%	56.00	43.08%	29.00	22.31%	10.00	7.69%	1.00	0.77%	0	0.0%	2.14	0.92	130
Labour Market													2.06	0.82	130
Labour cost in the host market	85.00	65.38%	28.00	21.54%	13.00	10.00%	4.00	3.08%	0.00	0.00%	0	0.0%	1.51	0.80	130
Return on investment in the host market	53.00	40.77%	38.00	29.23%	29.00	22.31%	9.00	6.92%	1.00	0.77%	0	0.0%	1.98	0.99	130
Availability of well qualified workforce in the host market	20.00	15.38%	35.00	26.92%	47.00	36.15%	22.00	16.92%	6.00	4.62%	0	0.0%	2.68	1.07	130
Macroeconomic Policy													3.93	0.53	130
Economic stability in the host market	0.00	0.00%	8.00	6.15%	58.00	44.62%	64.00	49.23%	0.00	0.00%	0	0.0%	3.43	0.61	130
Economic growth in the	0.00	0.00%	0.00	0.00%	45.00	34.62%	53.00	40.77%	32.00	24.62%	0	0.0%	3.90	0.77	130

host market															
Exchange rate in the host market	0.00	0.00%	0.00	0.00%	6.00	4.62%	57.00	43.85%	67.00	51.54%	0	0.0%	4.47	0.59	130
Infrastructure													3.97	0.59	130
Level of infrastructure in the host market	0.00	0.00%	0.00	0.00%	5.00	3.85%	71.00	54.62%	54.00	41.54%	0	0.0%	4.38	0.56	130
Geographical proximity in the host market	1.00	0.77%	6.00	4.62%	57.00	43.85%	51.00	39.23%	15.00	11.54%	0	0.0%	3.56	0.79	130
Political and Legal Framework													4.36	0.32	130
Political stability in the host market	0.00	0.00%	0.00	0.00%	0.00	0.00%	54.00	41.54%	76.00	58.46%	0	0.0%	4.58	0.49	130
International trade agreement in the host market	0.00	0.00%	0.00	0.00%	0.00	0.00%	48.00	36.92%	82.00	63.08%	0	0.0%	4.63	0.48	130
Government tax incentive to foreign banks	0.00	0.00%	0.00	0.00%	3.00	2.31%	60.00	46.15%	67.00	51.54%	0	0.0%	4.49	0.55	130
Diplomatic ties in the host market	0.00	0.00%	0.00	0.00%	7.00	5.38%	83.00	63.85%	40.00	30.77%	0	0.0%	4.25	0.55	130
Legal and regulatory system in the host market	0.00	0.00%	0.00	0.00%	39.00	30.00%	71.00	54.62%	20.00	15.38%	0	0.0%	3.85	0.66	130

Figure 6.1 significance of the major location factors



A histogram of major location factors (figure 6.1) also confirmed that political and legal framework, infrastructure and macroeconomic policy factors were regarded as most significant whereas labour market factor with a mean score of 2.06 is insignificant.

6.2.1.1 One-sample T-test

There are different types of t-test (Pallant, 2007). The first is the independent samples t-test, used when one compares the mean scores of two different groups of people or conditions. The second is the paired-sample t-test; this is used when one compares the mean scores for the same group of people on two different occasions or when there are matched pairs. Another form of t-test is a one sample t-test, which is used to test the difference between a sample mean and a known or hypothesized test value. One sample t-test was used because it has the potential to identify the importance of FDI location factors. A series of one sample t-tests were conducted to test study hypotheses (see tables 6.2a and 6.2b). The test value (i.e., 3.5) was used as a baseline to indicate significance/insignificance of FDI location factors in the banking sector. It allowed the researcher to identify factors receiving significantly higher/lower scores (i.e., significantly higher/lower than 3.5).

Table 6.2a One-Sample Statistics summary of the major factors

	N	Mean	Std. Deviation	Std. Error Mean
Market Factors	130	3.2346	.47897	.04201
Labour Market	130	2.0558	.82149	.07205
Macroeconomic Policy	130	3.9312	.53391	.04683
Infrastructure	130	3.9692	.58652	.05144
Political and Legal Framework	130	4.3631	.32449	.02846

Table 6.2a displays the sample size, mean, standard deviation, and standard error for each location factor. The sample means were both above and below the baseline test value (3.5) which indicated their importance/unimportance. The political and legal framework factors have an arithmetic mean score of 4.36, and they are considered very important followed by the infrastructure factors which have a mean score of 3.96. Macroeconomic policy factors have a mean score of 3.93 and they are also considered important. Unfortunately, the market factors and labour market factors were considered unimportant with mean scores of 2.05 and 3.23 respectively.

Table 6.2b One-Sample Statistics summary of the major factors

	Test Value = 3.5					
					95% Confidence Interval of the Difference	
Major Factors	T	Df	Sig. (2-tailed)	Mean Difference	Lower	Upper
Market Factors	-6.317	129	.000	-.26538	-.3485	-.1823
Labour Market	-20.044	129	.000	-1.44415	-1.5867	-1.3016
Macroeconomic Policy	9.209	129	.000	.43123	.3386	.5239
Infrastructure	9.122	129	.000	.46923	.3675	.5710
Political and Legal Framework	30.326	129	.000	.86308	.8068	.9194

Table 6.2b shows the results of the one-sample t test. The mean difference is obtained by subtracting the test value (3.5) from the

sample mean of each FDI location factor. The mean scores below the baseline value are shown as negatives. The significance values generated by one sample t-tests were 2-tailed. To test study hypotheses the significance values (1-tailed p values) were obtained.

Table 6.3 1-tailed p values for the major location factors

Major Factors	t	Df	Sig. (2-tailed)	Sig. (1-tailed) = Sig. (2-tailed)/2	Sig. 1-tailed>3.5
Market Factors	-12.004	129	.000	.000	1.000
Labour Market	-24.148	129	.000	.000	1.000
Macroeconomic Policy	10.482	129	.000	.000	.000
Infrastructure	7.973	129	.000	.000	.000
Political and Legal Framework	40.554	129	.000	.000	.000

The insignificant values from one sample t-tests revealed that the market factors and labour market factors have no significance in FDI location decisions in the Ghanaian banking industry (see table 6.3). There is enough evidence to reject H1a and H1b. According to the results, macroeconomic policy factors (H1c), infrastructure factors (H1d) and political and legal framework factors (H1e) were significant in FDI location decisions in the Ghanaian banking industry.

6.2.1.2 Correlation analysis

Correlation analysis has been available to research in theory for over roughly 50 years. Computer programmes, however, that perform the

analysis have recently become widely accessible (Thompson, 1984). According to Field (2005) and Pallant (2007) correlation analysis is used to explain the strength and direction of the linear relationship between two variables. According to Pallant (2007), the Pearson product-moment coefficient is designed for an interval level (continuous) variable. It can be used if we have one continuous variable, e.g., scores on a measure of self-esteem and one dichotomous variable, e.g., sex M/F. Field (2005) states that the coefficient will almost certainly lie between 0 (zero or no relationship between the two variables) and 1 (a perfect relationship) this indicates the strength of a relationship. The closer the relationship is to 1, the stronger the relationship; the closer it is to 0, the weaker the relationship, the coefficient will either be positive or negative – this indicates the direction of a relationship (Bryman and Bell, 2007). Pallant (2007) claims that Spearman rank correlation is recommended for use with ordinal level or ranked data and it is particularly useful when the data do not meet the criteria for Pearson correlation. It is the same as Pearson's r in terms of its outcome, in that the computed value of r = 0 will be either positive or negative and will vary between 0 and 1 (Bryman and Bell, 2007).

The size of the absolute value provides an indication of the strength of the relationship (ignoring the signs). The size of the value of correlation can range from -1 to 1 and this value indicates the strength of the relationship between the two variables. A variable of 0 indicates no relationship between the variables, whilst a correlation value of 1, indicates a perfect positive correlation between the variables, and when there is a correlation value of -1, this indicates a perfect negative correlation between the variables (as one increases, so too does the

other) or a negative correlation (as one variable increases, the other decreases) (Field, 2005; Bryman and Bell, 2007; Pallant, 2007). For example, the strength of r = 0.5 and r = -0.5 is the same correlation strength, but in a different direction. Bryman and Bell (2007) argue that different authors have different interpretations of correlation strength. Cohen (1988) and Pallant (2007), however, suggest the following guidelines for correlation strength: r = 0.10 to 0.29, medium r = 0.30 to 0.49 and large r = 0.50 to 1.0.

Table 6.4 measures of significance of location factors

		Market Factors	Labour Market	Macroeconomic Policy	Infrastructure	Political and Legal Framework
Market Factors	Pearson Correlation	1.000				
	Sig. (2-tailed)					
	N	130.000				
Labour Market	Pearson Correlation	-.025	1.000			
	Sig. (2-tailed)	.774				
	N	130	130.000			
Macroeconomic Policy	Pearson Correlation	.081	.111	1.000		
	Sig. (2-tailed)	.357	.207			
	N	130	130	130.000		
Infrastructure	Pearson Correlation	-.109	.148	**.175***	1.000	
	Sig. (2-tailed)	.219	.093	**.047**		
	N	130	130	**130**	130.000	
Political and Legal Framework	Pearson Correlation	.061	-.081	-.024	-.014	1.000
	Sig. (2-tailed)	.489	.357	.790	.873	
	N	130	130	130	130	130.000

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

Table 6.4 shows the correlations between the measures of significance of location factors included in this study. The measure of the macroeconomic policy factor was significantly correlated with the measure of infrastructure factor. No significant correlations were observed between other measures.

Table 6.5 relative significance given by the respondents

		Relative Significance	Market Factors	Labour Market	Macroeconomic Policy	Infrastructure	Political and Legal Framework
Relative Importance	Pearson Correlation	1.000	.068	.170	.344**	.178*	.043
	Sig. (2-tailed)		.439	.053	.000	.043	.627
	N	130.000	130	130	130	130	130

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

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

Relationships among the relative importance variable and FDI location factors were obtained utilizing Pearson product moment correlations. This statistical procedure communicates the pattern and extent of existing associations between the variable of interest and how they occur in the natural environment (Kachigan, 1986). Table 6.5 demonstrates that the relative significance given by respondents was only related in a significant way to two groups (i.e., macroeconomic policy factor, and infrastructure factor). The significance of the infrastructure factor might, however, have been the result of a significant correlation between macroeconomic policy and

infrastructure. To further check whether this relevance was the result of a significant correlation between them, a stepwise regression analysis was conducted.

6.2.1.3 Regression analysis

Regression analysis provides an equation describing the nature of the relationships among the predictor variables and the criterion variable. Additionally, regression analysis supplies variance measures which access the accuracy with which the regression equation can predict values on the criterion variable (Kachigan, 1986). Stepwise regression analysis selects the predictor variable that correlates most highly with the criterion variable and then introduces another predictor variable that accounts for most of the remaining or residual variance in the criterion variable and continuing until the inclusion of another predictor variable would only account for an insignificant amount of variance in the criterion variable (Kachigan, 1986). Stepwise regression was, therefore, used to eliminate the variable that did not influence variation in the model.

The underlying assumptions for regression analysis are the same as for Pearson product-moment correlations. Kachigan (1986) explains that while the basic model underlying regression analysis is designed for experimental data, the technique can be used for correlated random variables and that there are no severe consequences of this type of application of the basic regression technique with the use of these variables, provided the predictor variables are measured with high accuracy.

Table 6.6 Variables entered/removed[b]

Model	Variables Entered	Variables Removed	Method
1	Macroeconomic Policy[a]	.	Enter

a. All requested variables entered.

b. Dependent Variable: Relative Significance

Table 6.6 indicates that macroeconomic policy factors were selected in stepwise regression model as the predictor variable that correlates most highly with the relative significance.

Table 6.7 Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.344[a]	.118	.111	.05083

a. Predictors: (Constant), Macroeconomic Policy

Utilizing stepwise regression, the macroeconomic policy factors predicted the relative significance given by respondents. Macroeconomic policy factors such as, economic stability, economic growth and exchange rate in the host market predicted 11.8% of the variance in relative importance of the location factors based on the decision to locate in Ghana.

Table 6.8 ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.044	1	.044	17.139	.000[a]
	Residual	.331	128	.003		
	Total	.375	129			

a. Predictors: (Constant), Macroeconomic Policy

b. Dependent Variable: Relative Significance

Table 6.8 demonstrates the acceptability of the stepwise regression model from a statistical point of view. The significance value of the F statistic is less than 0.05, which means that the stepwise regression model explains the meaningful variation in the dependent variable (relative significance).

Table 6.9 Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.593	.033		17.828	.000
	Macroeconomic Policy	.035	.008	.344	4.140	.000

a. Dependent Variable: Relative Significance

Table 6.9 provides information demonstrating which variables entering into the equation contributed the most to the prediction. Interestingly, only macroeconomic policy factors predicted relative significance. None of the other variables contributed to the prediction.

Table 6.10 Excluded Variables[b]

Model		Beta In	t	Sig.	Partial Correlation	Collinearity Statistics
						Tolerance
1	Infrastructure	.121[a]	1.444	.151	.127	.970
	Market Factors	.041[a]	.488	.626	.043	.993
	Labour Market	.134[a]	1.609	.110	.141	.988
	Political and Legal Framework	.051[a]	.614	.540	.054	.999

a. Predictors in the Model: (Constant), Macroeconomic Policy

b. Dependent Variable: Relative Significance

Table 6.10 indicates that infrastructure, market factors, labour market factors and political and legal framework factors were excluded from the predictive model. Multicollinearity of infrastructure factors with the other predictive factor (macroeconomic policy) may have prevented this variable from entering the prediction model. The model is presented in table 6.10.

Table 6.11 shows the regression model obtained from the stepwise regression procedure. The inclusion of only one variable (i.e., macroeconomic policy factor) in the regression model confirmed the researcher's suspicion about the infrastructure factor. It also suggests that the macroeconomic policy factor was the most relevant factor for investors in Ghana and that investors are less concerned about other factors.

One question was added to the survey to conduct remaining tests (Chi-Square and Spearman Rank Correlation Test)

Ghana has a good image that can attract Foreign Direct Investment

- *Highly disagree*
- *Disagree*
- *Neither disagree nor agree*
- *Agree*
- *Highly Agree*

Table 6.11 Spearman Rank Correlations Test

			Ghana has a good image that can attract Foreign Direct Investment	Market Factors	Labour Market	Macroeconomic Policy	Infrastructure	Political and Legal Framework
Spearman's rho	Ghana has a good image that can attract Foreign Direct Investment	Correlation Coefficient	1.000	-.038	.081	.348**	.160	.006
		Sig. (2-tailed)	.	.667	.358	.000	.070	.948

		N	130	130	130	130	130	130

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

Spearman's rank correlation test was used to identify statistically significant trends between investor's favourable/unfavourable view of Ghana and FDI location factors. Spearman rank correlation was deemed appropriate for this analysis because investor's view of Ghana was recorded on a single item using ordinal scale (Pallant, 2007). A significant correlation coefficient of the macroeconomic policy factor suggests that investors' favourable view of Ghana, as a place to attract FDI, was directly related with Ghana's macroeconomic policy (see table 6.11). A series of crosstab analyses (chi-square analyses) were also conducted to explore the significance of subscales of macroeconomic policy factor (see tables 6.12-6.17). Crosstab analysis also confirmed that all three subscales of macroeconomic policy factor (economic stability, economic growth and exchange rate) were significant for investors who held positive views of Ghana to attract FDI.

6.2.1.4 Chi-square test

A chi-square analysis was performed to investigate whether investors' favourable view of Ghana, as a place to attract FDI, was also directly related with the importance of different elements of Ghana's macroeconomic policy. The chi-square test provides information on whether different groups differ significantly from what might be

expected by chance. The chi-square is based on a contingency table. A contingency table is an effective way to organize different dimensional data to determine whether different groups are predictors of one another (Huck *et al.* 1974).

Table 6.12 Crosstab

Count		Economic stability in the host market			
		Insignificant	Neutral	Significant	Total
Ghana has a good image that can attract Foreign Direct Investment	Neither disagree nor agree	3	16	1	20
	Agree	4	24	***33***	61
	Highly Agree	1	18	***30***	49
	Total	8	58	64	130

Table 6.12 indicates that investor's group who had a more favourable view of Ghana, as a place to attract FDI, also recognized the importance of the economic stability in Ghana.

Table 6.13 Chi-Square Tests

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	20.254[a]	4	**.000**
Likelihood Ratio	24.031	4	.000
Linear-by-Linear Association	14.760	1	.000
N of Valid Cases	130		

a. 3 cells (33.3%) have expected count less than 5. The minimum expected count is 1.23.

The two-sided asymptotic significance of the Pearson chi-square statistic is less than 0.05, therefore MNEs differ significantly from what might be expected by chance. It implies that MNEs' favourable view of Ghana, as a place to attract FDI, was also directly related with the importance of economic stability.

Table 6.14 Crosstab

Count		Economic growth in host market			
		Neutral	Significant	Very Significant	Total
Ghana has a good image that can attract Foreign Direct Investment	Neither disagree nor agree	18	1	1	20
	Agree	10	35	16	61
	Highly Agree	17	17	15	49
	Total	45	53	32	130

Table 6.14 indicates that the investor's group which had a more favourable view of Ghana, as a place to attract FDI, also recognized the importance of economic growth in Ghana.

Table 6.15 Chi-Square Tests

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	38.328[a]	4	**.000**
Likelihood Ratio	39.149	4	.000
Linear-by-Linear Association	8.732	1	.003
N of Valid Cases	130		

a. 1 cells (11.1%) have expected count less than 5. The minimum expected count is 4.92.

The two-sided asymptotic significance of the Pearson chi-square statistic is less than 0.05, therefore investor's groups differ significantly from what might be expected by chance. It implies that investors' favourable view of Ghana, as a place to attract FDI, was also directly related with the importance of economic growth.

Table 6.16 Crosstab

Count		Exchange rate in the host market			
		Neutral	Significant	Very Significant	Total
Ghana has a good image that can attract Foreign Direct Investment	Neither disagree nor agree	3	16	1	20
	Agree	1	22	38	61
	Highly Agree	2	19	28	49
	Total	6	57	67	130

Table 6.16 shows that the investors' group which had a more favourable view of Ghana, as a place to attract FDI, also recognized the importance of exchange rate stability in Ghana.

Table 6.17 Chi-Square Tests

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	23.038[a]	4	**.000**
Likelihood Ratio	26.009	4	.000
Linear-by-Linear Association	9.629	1	.002
N of Valid Cases	130		

a. 3 cells (33.3%) have expected count less than 5. The minimum expected count is .92.

The two-sided asymptotic significance of the Pearson chi-square statistic is less than 0.05, therefore MNEs decisions differ significantly from what might be expected by chance. It implies that investors' favourable view of Ghana, as a place to attract FDI, was also directly related with the importance of exchange rate stability.

6.3 Testing hypotheses

This section looks at the validity of the main research questions posed, specifically looking at the significance of location characteristics in the banking sector in Ghana In order to answer the research question the main question is formulated in the hypotheses form as follows.

H1: FDI location factors are significant to influence MNEs to locate in the Ghanaian banking sector.

The main hypothesis is divided into the following sub-hypotheses.

H1a: *market factors play a significant role in FDI location decisions in the Ghanaian banking industry*.
H1b: *labour market factors play a significant role in FDI location decisions in the Ghanaian banking industry.*
H1c: *macroeconomic policy factors play a significant role in FDI location decisions in the Ghanaian banking industry.*
H1d: *infrastructure factors play a significant role in FDI location decision in the Ghanaian banking industry*.
H1e: *political and legal framework factors play a significant role in FDI location decision in the Ghanaian banking industry.*

There is enough evidence to reject H1a and H1b. According to the results macroeconomic policy factors (H1c), infrastructure factors (H1d) and political and legal framework factors (H1e) were significant in FDI location decisions in the Ghanaian banking industry. A repeated measurements analysis of variance was performed by using average responses to answer

the research questions. In making the findings of this research more robust, reference was made to the prior literature on location characteristics.

Macroeconomic policy factors such as economic stability in the host market, economic growth in the host market and exchange rate in the host market have received more emphasis in location choice and this study highlights the importance of this factor. According to Nocke *et al.* (2008) macroeconomic variables include the host country's level of development, which is a significant determinant for greenfield development as observed by Nocke *et al.* (2008). Hunya (2004) claims that changes in the relationship between growth rates in different countries impact on the pattern of international capital movement. To elaborate further, capital moves from countries experiencing a downturn in their economic growth towards countries with higher economic growth rates (Globerman *et al.*, 2001 and Lall 2001). Lipsey (2000) confirmed the positive relationship between economic growth in the host country and annual inward FDI. Generally, there is substantial support in the literature for the FDI and economic growth causal relationship, as well as the economic growth and FDI causality. The large economies with rapid economic growth provide multinational companies with opportunities to generate greater profits and therefore become an inducement to FDI inflow (Cheng, 1996). Evidently this study confirms what the extant literature highlights concerning this factor.

This research highlights political and legal factors as very significant factors for MNEs when deciding to locate in Ghana. This major factor constituted political stability in the host market and international agreement in the host market. According to Phatak (1995) only a few studies in international

location decisions address this major characteristic or attempt to capture it in location models as it is difficult to measure and analyse. From this study it has, however, proven to be a very significant factor in the decision of MNEs to locate in Ghana. Empirical evidence on political factors has also given mixed results. Luo (2002) found that political instability has a negative impact on FDI inflow. Cheng (2006) found that political instability has no significant effect on FDI. Bandelj (2002) studied FDI determinants in Central and East European countries (CEEC) and concluded that the effect of political volatility in post-socialist nations is not uniformly negative. Bevan and Saul (2004) studied the flow of FDI from the EU to Central and Eastern European nations, and found that host country risk was not a significant determinant. Surprisingly, this was not the case in this study.

Infrastructure is a major characteristic in MNEs locating in Ghana. Level of infrastructure and geographical proximity in the host market constituted the reasons why MNEs chose Ghana as a destination to locate their banks. According to Flaig (1993) infrastructure issues have, therefore, become crucial in international operations. The existence of fairly good road networks in the urban areas were just a few examples given for the reason why this characteristic contributed to a high response in MNEs deciding to locate in Ghana. According to Asiedu (2003) physical infrastructure is not only a significant pillar of economic development but, also, impacts on the ability of businesses to operate successfully. Infrastructure in host countries is expected to improve the production possibilities of the domestic industries, develop greater linkages within the economy and provide a platform for the efficient distribution of goods and services. Thus, this aspect of national development is critical to the efforts of countries to attract FDI. It is found that the higher the availability of infrastructure the lower the

infrastructure costs and the higher the ability of the host country to attract FDI (Chen, 2006). Cheng and Kwan (2000) also found that cost and quality of infrastructure is a very significant factor influencing FDI in China.

The market size theory has long established that the size of the host country market is a significant determinant of FDI (Cheng, 1996). The theory argues that FDI is attracted to a large market in order to exploit economies of scale and to earn higher returns on investment (Asiedu, 2003). In contrast this study highlighted this characteristic as an insignificant characteristic when MNEs are deciding to locate in Ghana. Large size of the host market, market growth in the host market, level of competition in the host market and marker familiarity were notably insignificant. The outcome of the size hypothesis is that larger countries with larger markets are able to attract more FDI because larger markets make it possible to exploit economies of scale and earn higher returns (Cheng, 1996). To understand why banks invest abroad, Grubel (1977) and Walter (1988) explain this by using the *follow-the-customer* hypothesis. Some financial MNEs stated in this study that even though they followed their customers to Ghana clearly this was not one of the main characteristic considered before they located in Ghana.

In this research labour cost in the host market, return on investment in the host market and the availability of a well qualified workforce in the host market are increasingly insignificant location choices. Financial MNEs need to investigate thoroughly for each location advantage before making their decision but evidently this is not a factor of choice when deciding to locate. Results of past empirical studies on wage costs and FDI location determinants have varied as stated in the literature. Some have found that higher labour costs deterred FDI flow (Porter 1990; Lall 2001, Dunning;

2004 and Helpman 2006) while Gong (1995) and Chen (1996) have found a statistically insignificant correlation between the inflow of FDI and labour costs. Cassidy (2002), Wei *et al*. (1999) and Fu (2000) found a negative correlation between effective wage and FDI flow; while Cheng (2006) found a positive correlation between the effective wage and FDI flow in China. The next section examines the qualitative evidence.

6.4 Qualitative evidence of FDI location characteristics

This study reorganized the research questions used for the empirical study in Ghana under the following themes: (a) role/function in the bank and experience - the first question was designed to discover some general information about the respondents; (b) location characteristics the constitute the attraction of FDI in the Ghanaian banking sector - the second question which is the main thrust of the research was to examine the location characteristics of MNEs' location decisions to locate in Ghana.; (c) involvement in the decision-making process – the third question was used to investigate whether the respondents were involved in the decision-making to locate in Ghana; (d) reasons to locate in Ghana – this question sought to find out from the respondents why Ghana was chosen as their destination; (e) Ghana's position in attracting FDI – question five was designed to explore the views on Ghana's position in attracting FDI flows; (f) incentives provided by the Ghanaian government to attract foreign investors – the penultimate question aimed at finding what incentives were in place to attract foreign investors ; (g) reasons why Ghana has not been able to attract significant FDI in the banking sector – the final question sought to find out the views of the respondents on why Ghana has not been able to attract significant FDI in the banking sector.

A number of techniques have been advocated in the literature to aid the analysis on location decision-making based on the major location characteristics (Brandeau and Chiu, 1989; Sule, 1994; Revelle and Laporte, 1996 and Hayter, 1997). However, in this research work a multi-method approach was adopted to ascertain the facts.

Furthermore, a review of the literature was done to identify a fully comprehensive set of factors and sub-factors relevant to international location decision-making (Atthirawong and MacCarthy, 2001). Appendix X summarizes the background information of financial MNEs operating in Ghana chosen for this study. There are five major characteristics which were found to be prevalent within the Ghanaian banking sector. These are: *macroeconomic policy, political and legal, infrastructure, market factor and labour market factors.* The analysis started at the outset of the data collection and throughout the study to identify these characteristics. This proved particularly helpful in providing information used in revising the initial interviewing questions and formulating new questions as the interviewed progressed. After interviewing 52 respondents (mainly managing directors and policy makers) and analysing the emerging data set, it was perceived that although themes were recurring, it was important to support the analysis by using a quantitative paradigm. The next section examines the qualitative evidence.

Role/function in the bank and experience – involvement in decision-making

There is no one approach that describes how banks use their own due diligence and publicly available information, particularly on the decision to locate in a host country. Whilst some decision-makers use different criteria to choose the location, it is important to note that the role or function of a bank worker especially a managing director becomes important in the decision process to locate in a country. The following quotation from MD of Alpha Bank typifies the shared views of the respondents.

> *I have been in the banking industry for over 30 years and I have undertaken various roles within these years. Although I have been the managing director of this bank for 5 years I would like to think I have been around for a long time – nothing beats experience like they say. Just for the record I was actively involved in a previous failed bank. I was also actively involved in the decision to locate in Ghana. I was working between Nigeria and Ghana. I saw the potential here and recommended that the bank should look to Ghana as a potential country to do business. This move was purely down to what I had witnessed over the years* (MD, Alpha Bank)

In the same vein, the MD of Foxtrot Bank noted:

> *Banking is all about experience. I have been an MD of this bank for 7 years and I was very much involved when we decided to locate in Ghana. I have worked in most parts of the bank, e.g., treasury, retail, corporate, back and front offices. I make it a point to get involved in most graduate induction programmes instructing new recruits how important experience is when working in a bank.*

A senior economist of BOG also iterated:

> *To me, personally, my years of experience in the banking sector are invaluable. I have seen it all. Governments come and go but as a civil servant my job does not tie me to any political party. When approached by potential investors when deciding to locate in Ghana I rely on my experience to provide the best possible advice.*

A director in Echo Bank noted:

> *I have only been a director for 1 year. My background is totally different. Believe it or not before I became employed in the bank, I was working for a major supermarket in the USA. Even though I was not involved in the decision making process to move to country (Ghana) I came in to this role with transferable skills.*

The preceding statements indicate that experience is absolutely important when a bank decides to locate in a country. Experience and specific banking expertise is required when an MNE expands into new markets (Calvo and Concelli, 1994). In this context, respondents consider their experience as an important attribute when deciding to locate in another country (Gorg, *et al*, 2005). Similarly, Casson (1987) asserts that the use of internal knowledge is a very broad one and includes technical know-how, marketing know-how and managerial know-how which must be utilised in the new venture. However, it is not always the case that the acquisition of knowledge and experience/expertise must always come from the banking profession. It is acknowledged in this thesis that other workers can be employed in the banking sector with varied experience from other industries as in the case of

the director of Echo bank who was employed in the bank with transferable skills (customer service experience – interpersonal skills etc.).

Location characteristics that constitute the attraction of FDI in the Ghanaian banking sector

In order of significance, the following were rated by the interviewees as significant location characteristics: macroeconomic policy, political and legal factors, and infrastructure. Market and labour market factors were rated as insignificant location characteristics.

Macroeconomic policy

Macroeconomic variables include the host country's level of development, which is a significant determinant for green field development as observed by Nocke, *et al.* (2008). Hunya (2004) claims that changes in the relationship between growth rates in different countries impact on the pattern of international capital movements. To elaborate further, capital moves from countries experiencing a downturn in their economic growth towards countries with higher economic growth rates (Globerman, *et al*., 2001 and Lall, 2001). Lipsey (2000) confirmed the positive relationship between economic growth in the host country and annual inward FDI. Generally, there is substantial support in the literature for FDI and economic growth causal relationship, as well as the economic growth and FDI causality. The large economies with rapid economic growth provide multinational companies with opportunities to generate greater profits and thereby become an inducement to FDI inflow (Cheng, 1996). MD of Alpha Bank indicated:

> *We wanted to locate in a country where the macroeconomic policy has been consistent over the years. Ghana as an investment destination provides the adequate platform for us as a bank to penetrate.*

A director at Echo Bank commented:

> *When moving a bank to a developing country the single most important decision characteristics in my opinion should be macroeconomic policy of the host nation. We were convinced by the government that they were taking great strides in controlling inflation. Again the Ghanaian currency appears to be fairly stable.*

An interviewee from Alpha Bank stated:

> *We work in an environment where things are constantly changing with inflation going up and down. This makes future investment decisions very difficult but I believe economic indicators show that Ghana was the place to invest.*

Political and legal factors

Empirical evidence on political factors has also given mixed results. Luo (2002) found that political instability has a negative impact on FDI inflow. Cheng (2006) found that political instability has no significant effect on FDI. Bandelj (2002) studied FDI determinants in Central and East European countries (CEEC) and concluded that the effect of political volatility in post-socialist nations is not uniformly negative. Bevan and Saul (2004) studied the flow of FDI from the EU to Central and Eastern European nations, and found that host country risk is not a significant determinant. A director at Echo Bank noted:

> *Ghana is a good place to do business in terms of political stability. Elections held over the years have been very peaceful. We strongly believe that, as a bank, political and legal factors should be the very first item on the agenda of any bank wanting to do business anywhere.*

A director at Bravo Bank commented:

> *The perception among investors wanting to invest in Ghana is that the regulatory bodies are entirely independent even though I think they are still subject to political pressure. Well, it's better than other countries.*

An interviewee from Foxtrot Bank stated:

> *Having been to most parts of Africa, I am yet to see another country like Ghana, especially the Ghanaian people. They are the friendliest and most cultured you can ever find anywhere. Diplomatic ties with other countries in terms of trade agreements are in place e.g. ECOWAS should I go further.*

A director at Charlie Bank iterated:

> *Ghana over the years have had smooth and peaceful elections therefore, this factor was the deciding one. After all why consider somewhere else which is not safe or has political unrest?*

The Managing director of Golf Bank stated:

> *The smooth democratic political election in the last decade or so has been a significant factor contributing to the decision to locate in Ghana.*

Infrastructure

According to Asiedu (2003) physical infrastructure is not only a significant pillar of economic development but, also, impacts on the ability of businesses to operate successfully. Infrastructure in host countries is expected to improve the production possibilities of the domestic industries, develop greater linkages within the economy and provide a platform for the efficient distribution of goods and services. Thus, this aspect of national development is critical to the efforts of countries to attract FDI. It is found that the higher the availability of infrastructure, the lower the infrastructure costs and the higher the ability of the host country to attract FDI (Chen, 2006). Cheng and Kwan (2000) also found that cost and quality of infrastructure is a very significant factor influencing FDI in China. A director at Bravo Bank noted:

> *In comparison with other SSACs, Ghana's road network is fairly good, especially in the urban areas. We have major plans to establish branch networks across the country. We were not particularly happy with the electricity situation but believe me it's far better than other countries we considered before locating in Ghana.*

According to Flaig (1993) infrastructure issues have therefore become crucial in international operations. The managing director of Bravo Bank asserted:

> *One reason why we located in Ghana was because of the infrastructure. Yes I have been to quite a few places round the world and I know what good infrastructure is, let's face it this is Africa.*

Market factors

The market size theory has long established that the size of the host country market is a significant determinant of FDI (Cheng, 1996). Asiedu (2003) argues that FDI is attracted to a large market in order to exploit economies of scale and to earn higher returns on investment. Cheng, (1996) believes that larger countries with larger markets are able to attract more FDI because larger markets make it possible to exploit economies of scale and earn higher returns. In relation to this a representative from the Ministry of Finance indicated that:

> *The size of the financial sector in Ghana is small compared to other countries in the sub-region in terms of the number of corporate entities listed and the entire market capitalization of the stock exchanges. Other countries such as South Africa are far ahead and we need to take full responsibility to improve or else FDI inflow will bypass us.*

A policy analyst at the Bank of Ghana commented:

> *The main challenge for the banking sector is the fact that a recent report by the Bank of Ghana indicated that 70% of Ghana's population does not put their financial resources in the retail banks. My view on this is we do not need too many*

banks but we need banks that are efficient and can drive business activity in the country. More emphasis should be placed on addressing the structural problems for example identification methods and address verification methods used by current banks.

A director at Charlie Bank noted that:

The issue here is that the size of Ghana's economy is not that big and that really affects other aspects of the economy and the amount of FDI that can be expected. Take for example the City of Lagos, it is far bigger than that of the whole of Ghana considering the size of the economy and business activity that goes on in Lagos.

A Managing director at Delta Bank commented:

The number of banks currently operating in Ghana is about 25 - 27 including local banks. As such, I do not consider the market factor to be a major factor in deciding to locate in Ghana. In order words the market is not over populated.

Labour market

Results of past empirical studies on wage costs and FDI location determinants have varied as stated in the literature. Some authors have found that higher labour costs deter FDI flows (Porter, 1990; Lall, 2001 and Dunning, 2004) while Gong (1995) and Chen (1996) have found a statistically insignificant correlation between the inflow of FDI and labour costs. Cassidy (2002), Wei, *et al*. (1999) and Fu (2000) found a negative correlation between effective wage and FDI flows; while Cheng (2006) found a positive correlation between the effective wage and FDI flows in China. A director at Golf Bank noted that:

> *Competent banking staff is lacking in Ghana and also there is a high mobility in the industry. Most of the seasonal bankers start their trade with the so called traditional banks – by that I mean ones that have been in Ghana for a very long time, but most of them move to the new banks in search of attractive remuneration.*

The directors of Delta Bank stated that:

> *When we were deciding to locate in Ghana we arranged with one of the leading universities to have an intake of first class graduates who we as a bank were willing to train to work for us. The scheme to date has not been very successful in my opinion. The reason is most of the graduates lack basic skills required in the banking environment.*

A representative from the Bank of Ghana stated:

> *As regulators of the industry we need to clearly understand the financial sector needs to make a conscious effort to improve their own understanding of the financial sector by providing a curriculum for the industry.*

An HR director at Echo Bank reveals that:

> *Co-operation between the industry and training organizations is non-existent. It would be great if all the banking and training is done under one umbrella to cater for all the needs of the banking industry.*

Reasons to locate in Ghana

To understand why banks invest abroad, Grubel (1977) and Walter (1988) explain this by using the *follow-the-customer* hypothesis. In relation to this the CEO of Golf Bank noted that:

> *Our bank has seen a lot of follow-the-client because we are a trusted bank across the continent. Anytime people move they like to move with us. Ghana may not be a very large market to operate in but a stepping stone to enter other markets in SSACs. For example with the oil exploration in Ghana many oil companies are moving from Nigeria to Ghana. The question is if we also do not move with them we potentially stand the chance of losing the entire business relationship.*

Traditionally, the internationalization of banks has been closely tied to internalization of non-financial firms (Claessens and Horen, 2007). MNEs follow their customers to provide them with financial services abroad and thereby increase their business abroad. According to Grosse and Goldberg (1991), Brealey and Kaplanis (1996), Williams (1996) and Yamori (1998) their various studies have shown that foreign direct investment is correlated with the degree of bilateral trade and FDI between the source and the host country.

Ghana's policy in attracting FDI

The head of department at the GIPC asserts:

> *The government of Ghana offers incentives that are equal to or better than what is offered elsewhere in Africa. However, the problem is that most of the investors do not follow the right process. Once they get it right the benefits in my opinion should attract any investor.*

An interviewee from MOTI stated:

> *Under the economic reform agenda we operate a very reasonable and favourable incentive package to attract foreign investors. Once upon a time Ghana had a military regime which meant potential investors stayed away from investing here, as a result incentives were far more easily given out to potential investors as a way of enticing and attracting foreign investors. Many companies that were around then enjoyed these benefits and believe me they are still around. What you should be asking me is what have these companies done for us? I recently read in the newspapers that some of these companies are not even paying the right corporation tax.*

A policy analyst from BOG stated:

> *With the number of banks operating in Ghana today competition is fierce take for example credit provision and internet banking. The banks would have to make sure they are providing the best service in order to attract and retain their customer.*

Incentives provided by the Ghanaian government to attract foreign investors

According to Phatak (1995) there are only a few studies in international location decision-making that address the issue of governmental involvement, or attempt to capture it in location models, as it is difficult to measure and analyse. Ghana has, however, come to understand the private sector as the propeller for meaningful economic growth and the role of government is to facilitate measures that will support the growth of private businesses (GIPC, 2012). As a result, the government of Ghana has come out with some favourable policies to attract foreign investors. These incentives include capital allowance, tax holidays and exemption from duty. Atthirawong and McCarthy (2003) claim that indicators such as tax incentives and tax structure, financial incentives, custom duties, inflation and interest rates have been receiving more emphasis in location choice and this is reflected in the views of the respondents.

> *Ghana offers fantastic opportunities for banks coming from abroad to invest. We seriously considered a few countries in the sub-region to locate in but, the deciding factors that swayed us to locate here in Ghana was because of what the government had to offer. I am unable to tell you more but at the time very important relationships were forged and promises were made. True to their word we are still enjoying some great benefits* (Managing director of Delta Bank)

The above findings resonate with studies such as Atthirawong and McCarthy (2003) who argue that the attitude of government to inward investment is a major contribution to the development of business.

Reasons why Ghana has not been able to attract significant FDI in the banking sector

Part of the financial reforms was the removal of restrictions on how much profit an MNE can repatriate back to their home country. However, there are still restrictions regarding the conversion and transfer of funds coupled with bureaucratic processes, which is time consuming. A director at Alpha Bank commented:

> *Flights of capital in my opinion are a problem in Ghana. BOG will not authorize a massive transfer of capital from an account in Ghana to another account abroad. It is extremely frustrating and difficult to transfer huge amounts to say the least. The government will accept money in but put impediments in our way to transfer out. This is why I think others will not invest here.*

A director at Charlie Bank noted:

> *Capital repatriation was a huge problem prior to our decision to locate in Ghana, but we were assured by the authorities that regulations would be in place for offshore banking. However, things take time in this part of the world as you know. What is the point if investors are allowed to bring money in but are unable to take it out when needed?*

Another respondent stated:

> *The foreign exchange system has been liberalized which is part of the financial reforms and exchange rates are determined by market forces. However, inflation and consistent depreciation of the Ghanaian currency may be the reason why Ghana has not been able to attract significant FDI in banking* (Senior Economic and Investment Consultant, MOFEP)

6.5 Summary of the qualitative evidence

The qualitative analysis has provided insights into the understanding of FDI location characteristics of MNEs location decisions in the Ghanaian banking sector. The finding shows that some decision-makers use different criteria to choose their location. Nevertheless, it is important to note that the role or function of a bank worker especially a managing director becomes important in the decision-making process to locate in a country. In terms of location characteristics, evidence from the interviews reveals a consistent pattern in the recurring themes on location characteristics. The emergence of new levels of competition in the banking industry, following the financial sector reforms, has created a platform where the role played by banking staff is needed to support the operational activities of banks operating in Ghana. Their managerial skills are required to improve the performance, productivity and profitability.

The availability, therefore, of the required, well qualified individuals in the labour market has proven to be a significant characteristic to decision-makers. The findings show that competent banking staff is lacking in Ghana and there is also a high mobility in the industry. Bank workers tend to move rapidly from the traditional banks into new banks in search of attractive remuneration. Another finding reveals that foreign banks tend to be unhappy about the graduates who are employed by the banks because they lack the basic skills. Respondents are of the opinion that graduates who are employed by the banks need immediate training. It is therefore hoped in this thesis that rigorous training would be offered and done by training bank organisations such as the chartered institute of bankers in Ghana which will cater for the needs of employees in the banking industry.

Respondents reveal that the size of the financial sector in Ghana is small compared to other SSA countries such as South Africa in terms of the size of market capitalization as well as the number of corporate entities listed on the stock exchange. Interviewees' responses reveal that the market is not saturated with banks and hence they do not consider market factors as important characteristic for decision-making. In the view of Tschoegl (1999) market saturation will always force banks to pursue a policy of asset seeking elsewhere for reasons of consolidation but this is not the case in Ghana.

According to Shaw and Fry (1995), interest rate and exchange rate fluctuations affect an economy's financial sector and may retard economic growth efforts. Respondents believe that macroeconomic policy factor is the main reason for locating in Ghana. The director of Echo bank states "when moving a bank to a developing country the single most important factor to consider is macroeconomic policy of the host nation". Another respondent also commented "our bank will locate in a country where the macroeconomic environment has been fairly stable over the years". In the view of respondents, the economic environment in Ghana is stable and also the investment climate is business-friendly to attract foreign investors (GIPC, 2012)

Another significant finding is that the political and legal environment is fairly stable and conducive for business. This is in consonance with Luostarinen (1982) who argues that a stable and predictable political system would attract financial FDI. A respondent attributed the smooth democratic political elections in the last decade or so has been a significant factor contributing to the decision of banking MNEs to locate in Ghana.

As stated above, national development is critical for the attraction of a significant FDI flow. Chen (2006) found that the higher the availability of infrastructure the lower the infrastructure costs and the higher the ability of the host country to attract FDI. Even though respondents were unhappy about the frequent black outs of electricity in Ghana, they were generally complimentary about the gradual improvements of the road network giving them opportunity to establish branch networks across the country.

Grubel (1977) and Walter (1988) explain that banks often use the *follow-the-customer* concept to locate in a country. The Chief Executive Officer of Golf bank notes "Our bank has seen a lot of follow-the-client principle used by our bank because we are a trusted bank across the continent. Anytime people move they like to move with us. Ghana may not be a very large market to operate in but a stepping stone to enter other markets in SSACs. For example, with the oil exploration in Ghana many oil companies are moving from Nigeria to Ghana. The question is, if we also do not move with them we potentially stand the chance of losing the entire business relationship".

Ghana's position in attracting FDI rests on the willingness of the government to offer incentives to prospective investors. A senior person from Ghana Investment Promotion Council iterates that the government of Ghana offers incentives that are equal to or better than what is offered elsewhere in Africa. From his point of view, if investors follow the right procedures they will benefit from the incentives offered by the government. An interviewee from MOTI stated: "We operate a very reasonable and favourable incentive package ranging from tax holidays, capital allowances and exemption from custom duty to attract foreign investors" (GIPC, 2012).

Majority of respondents give reasons why Ghana has not been able to attract significant FDI in the banking sector. According to these respondents flights of capital are a problem in Ghana. BOG will not authorize a massive transfer of capital from an account in Ghana to another account abroad. Respondents believe that it is extremely frustrating and difficult to transfer huge amounts to say the least. A respondent stated that the government of Ghana will accept money in but put impediments in our way to transfer out. Arguably, Section 27 of GIPC Act 478 guarantees the unconditional transferability of funds by using any authorised dealer bank and it is not certain where the difficulty of transferring funds comes from. Another important point made by respondents is that even though the foreign exchange system has been liberalized to ensure that the exchange rate is determined by market forces however, the government of Ghana is encouraged in this thesis to pursue an intervention policy from time to time to correct the rapid fluctuations of the exchange rate. According to the World Bank on the development in the foreign exchange market (May, 2012) an unexpected change in the Ghana cedi/US dollar exchange rate could therefore have an impact on profitability of enterprises operating in the tradable sector of the economy — exporters and importers. It may call for corrective action such as an intervention by the Bank of Ghana. The senior economist and investment consultant at MOFEP maintains that inflation and persistent depreciation of the Ghanaian currency may be one of the reasons why Ghana has not been able to attract significant FDI in the banking sector. According to a Bank of Ghana document on trade flows (2010), Ghana's foreign currency needs are met through gold and cocoa export revenues and donor assistance. This means that a fall in the world prices of these major commodities will cause temporary shortages of foreign

currency causing Ghana's balance of payment to deteriorate thus depriving Ghana to attract significant FDI flows (BOG, 2012).

6.6 Overall summary of findings

In this research both quantitative and qualitative methods were employed. It is acknowledged in this thesis that both methods have different strengths and weaknesses. By using the qualitative method such as interviews at the initial phase of the research, this was a way of exploring the respondent's views on location characteristics and their effects on MNEs' location decisions in the Ghanaian banking sector. Following Hermes and Lensink (2005) Adams (2009) Ezeoha *et al*. (2011) and Bryman (2012), content analysis technique was used to analyse the interviews so as to identify patterns in the information provided by the interviews, and in turn to investigate the significance of the location factors in respect of FDI location decision-making in the Ghanaian banking sector. The interviewees were asked to share their views on a range of issues; in order of significance and relevance and the following factors were found to be very significant factors - macroeconomic policy, legal and political factors and infrastructure factors. Market factors and labour factors were, however, found to be insignificant factors in the determination of FDI inflows to Ghana. At the later phase of the research, quantitative methods were used to verify and confirm the same findings indicated earlier. As Patton (1990:132) suggested, *qualitative data can put flesh on the bones of quantitative results, bringing results to life through in-depth case elaboration*. Using qualitative and quantitative methods, the above results were confirmed. As a result, therefore, whether a qualitative or quantitative method was used, either method would have given the same results.

Chapter 7

7.0 Introduction

The thesis has gone some way to closing the gap in the literature by making a significant contribution towards our understanding of the characteristics that affect MNEs location decisions in the Ghanaian banking sector. In spite of the increase of foreign entry of financial MNEs in the Ghanaian banking sector, Ghana has still not been able to attract significant FDI and to increase the benefits from these capital inflows (Barthel *et al.* 2011; Nyarko *et al*. 2011; Djokoto, 2012 and Faruq 2012).

7.1 Discussion

The main aim of this thesis is to examine FDI location characteristics contributing to the location decision of MNEs in the Ghanaian banking sector. Both quantitative and qualitative evidence reveals that MNEs' decision to locate in the Ghanaian banking sector hinged primarily on a stable macroeconomic policy, infrastructure factors and political and legal factors. This finding is in line with authors such as Lin and Kwan (2011) who in their study of sectorial location of FDI in China found that macroeconomic and infrastructure factors are fundamental in a country's economic developmental strategy.

Objective 1: Investigate Financial MNEs decision to locate in the Ghanaian banking sector in relation to FDI location characteristics.

Evidence from both qualitative and quantitative data analyses reveals that the most significant factor that impacts foreign entry in the Ghanaian banking sector is a stable macroeconomic policy. The sub-factors including economic stability in the host market, economic growth in the host market, and exchange rate in the host market show positive responses (refer to chapter 6). In the quantitative data analysis the sub-factors with average response rates of more than 3 show that the above factors are positively related to FDI flows into the banking sector. In other words, due to a stable macroeconomic environment, foreign investors are induced to invest in the Ghanaian banking sector. Likewise, respondents believe that macroeconomic policy is the main reason for Financial MNEs' to locate their business in Ghana. The director of Echo bank states *"when moving a bank to a developing country the single most important factor to consider is macroeconomic policy of the host nation".* Another respondent also commented *"our bank will locate in a country where the macroeconomic environment has been fairly stable over the years".* In the view of respondents, the economic environment in Ghana is stable and also the investment climate is business-friendly to attract foreign investors (GIPC, 2012). This thesis supports the claim of Demirbag, Taloglu and Glaister (2008) who found that market potential in Turkey, i.e., growth rate and market size, was positively correlated with FDI acquisitions in the domestic market.

Another significant factor for foreign entry in the Ghanaian banking industry is infrastructure. Infrastructure factors comprised of two sub-factors, these included: (a) level of infrastructure in the host market; and, (b)

geographical proximity in the host market. In this research, the term infrastructure is synonymous to quality of roads, dependable energy and availability of good telecommunication network, legal and transport systems. Available quantitative evidence shows an average response rate of 3.97 indicating that infrastructure factors are also positively related to FDI inflows in the banking industry. In addition, the qualitative evidence reveals that a reasonably good infrastructure encourages MNEs to locate in the banking sector. A director at Bravo Bank noted: "*In comparison with other SSACs, Ghana's road network is fairly good, especially in the urban areas. We have major plans to establish branch networks across the country. We were not particularly happy with the electricity situation but believe me it's far better than other countries we considered before locating in Ghana".* Similarly, the managing director of Bravo Bank asserted: "*One reason why we located in Ghana was because of the infrastructure. Yes I have been to quite a few places round the world and I know what good infrastructure is, let's face it this is Africa".* Deichmann, *et al*. (2003) in a study of 293 foreign firms' location in Turkey found that infrastructure development increases the probability of MNEs location.

Political and legal factors with a mean score of 4.36 were ranked as significant determinants of MNEs' decision to locate in the Ghanaian banking sector. The sub-factors comprised of: (a) political stability in the host market; (c) international trade agreement in the host market; (c) government tax incentive to foreign banks; (d) diplomatic ties in the host market; and, (e) legal and regulatory system in the host market. The qualitative evidence also demonstrates that political and legal factors are positively correlated with FDI inflows to Ghana. The qualitative evidence

reveals the opinion of respondents. For example, an interviewee from Foxtrot Bank stated: "*Having been to most parts of Africa, I am yet to see another country like Ghana, especially the Ghanaian people. They are the friendliest and most cultured you can ever find anywhere. Diplomatic ties with other countries in terms of trade agreements are in place e.g. ECOWAS should I go further"*. Again, a director at Charlie Bank iterated: "*Ghana over the years have had smooth and peaceful elections therefore, this factor was the deciding one. After all why consider somewhere else which is not safe or has political unrest?"* The Managing director of Golf Bank also stated: "*The smooth democratic political election in the last decade or so has been a significant factor contributing to the decision to locate in Ghana".* It is worth noting that the findings of this study align with the results of Disdier and Mayer (2004); Daude and Stein (2007) and Du, *et al*. (2007) who found that political stability and lack of corruption allow markets to properly function, therefore attracting MNEs.

Market factors, consisting of large size of the host market, market growth in the host market and market familiarity which have been found in previous studies (Erdal and Tatoglu, 2002, among others) as important determinant factors for FDI inflows are found in this research to have no impact on FDI flows into Ghana since their mean values are close to 3. Correspondingly, a one sample t-test also revealed that market factors have no impact on FDI location decisions in the Ghanaian banking industry. The qualitative result shows that market factors do not have impact in respect of MNEs decision to locate in the banking industry. A managing director at Delta Bank commented: "*The number of banks currently operating in Ghana is about 25 - 27 including local banks. As such, I do not consider the market factor*

to be a major factor in deciding to locate in Ghana. In order words, the market is not over populated." Cheng (1996) argues that FDI is attracted to a large market in order to exploit economies of scale and to earn higher returns on investment. However, this is not the case in this research in relation to Ghana as a location destination of financial MNEs.

Equally, labour market factors consisting of labour cost in the host market, return on investment in the host market and availability of a well-qualified workforce in the host market are also found in this study to be unimportant factors in the determination of FDI inflows to Ghana. Evidence from the quantitative analysis shows an average response rate of 2.06 which is below 3, indicating that labour market factors are insignificantly correlated to MNEs' location decision. The one sample t-tests also shows similar result. Empirical studies documented in the literature on labour market factors and FDI location characteristics have mixed results. This study confirms the findings of Cheng (1996) and Asiedu (2003) who found that labour market factors have statistically insignificant correlation between the inflow of FDI and labour cost. Likewise, the findings of Lall (2001), Erdal and Tatoglu (2002), and Narula (2004) revealed that higher labour costs prevent FDI flows to developing countries.

Objective 2: Assess the effect of Financial MNEs' activities in the Ghanaian banking sector.

The influx of foreign banks into Ghana has had some positive effects on the banking sector and the Ghanaian economy as a whole due to the openness of the economy and the benign investment climate. Available qualitative evidence shows that financial MNEs activities have been fruitful in the Ghanaian banking sector. For example, a policy analyst from BOG stated: *With the number of banks operating in Ghana today competition is fierce take for example credit provision and internet banking. The banks would have to make sure they are providing the best service in order to attract and retain their customer.* Other activities that have enhanced the banking sector include (a) an increase in the provision of easy access to credit; (b) easy access to customers' funds *via* the increase in the number of ATM machines; (c) an increase in technology paving the way for internet facilities such as online banking and telephone banking which have prompted other domestic and foreign banks to improve their services; and, (d) improvements in infrastructure giving easy access for remote banking for people in rural areas (Buchs and Mathisen, 2005; Gormley, 2007 and Acheampong, 2013).

Objective 3: Use the findings of this research to inform Ghanaian policy-makers in order to improve and consolidate on the government's policy on FDI.

In spite of the rapid progress following the reforms, most banks are still faced with several constraints in Ghana. An assessment of Ghana's financial reforms have been analyzed in this thesis, and the findings of this research can be used to inform policy-makers in order to improve the government's policy on FDI. Currently, there are restrictions on foreign portfolio investors who are not residents in Ghana. According to MOFEP (2003) and Mensah (2004) the current limits on all types of non-resident foreign investor holdings is that such persons are allowed to hold up to 10% of every issue of listed securities of any class. The restrictions against MNEs listed on the stock exchange may be seen as discriminatory. The fact that non-listed MNEs may be 100% owned by foreigners can restrict foreign entry. In the ECOWAS region, Ghana is the only country with such restrictions. As indicated by Mensah (2004) most African countries have eliminated restrictions on foreign participation in their stock markets.

Available qualitative evidence shows that the Ghanaian government offers a package of incentives to foreign investors. For example, the head of department at the GIPC asserts "t*he government of Ghana offers incentives that are equal to or better than what is offered elsewhere in Africa. However, the problem is that most of the investors do not follow the right process. Once they get it right the benefits in my opinion should attract any investor".* Another interviewee from MOTI stated "*under the economic reform agenda we operated a very reasonable and favourable incentive package to attract foreign investors. Once upon a time Ghana had a military regime which meant that potential investors stayed away from*

investing here, as a result incentives were far more easily given out to potential investors as a way of enticing and attracting foreign investors. Many companies that were around then enjoyed these benefits and believe me they are still around. What you should be asking me is what have these companies done for us? I recently read in the newspapers that some of these companies are not even paying the right corporation tax".

Even with the package of incentives offered by the government, there are still restrictions regarding the conversion and transfer of funds coupled with bureaucratic processes, which is time consuming. A director at Alpha Bank commented "*Flights of capital in my opinion are a problem in Ghana. BOG will not authorize a massive transfer of capital from an account in Ghana to another account abroad. It is extremely frustrating and difficult to transfer huge amounts to say the least. The government will accept money in but put impediments in our way to transfer out. This is why I think others will not invest here".* The author of this thesis believes that the major policy area to have a huge impact on foreign entry in banking should include the following: an improved institutional system – a mechanism to continue to improve and consolidate on the macroeconomic conditions in Ghana. Policymakers must encourage and focus on creating a regulatory environment conducive to favourable decision-making in the process of location that will increase competition and which would ultimately maximize productivity. Furthermore, monetary system improvements are achieved by removing restrictions and controlling interest rates. Resources must be in place for a system of good governance which will reduce political risk and encourage infrastructural development.

Lack of certainty regarding a specific host market can be overcome by engaging with the relevant stakeholders such as the Bank of Ghana and GIPC – recognized governmental institutions which can provide initial consultation in respect of FDI as an important source of capital. Furthermore, to ensure that the correct managerial decisions are made, the current crop of senior executives should be encouraged by the government/policymakers to provide an action plan for the industry. In Africa, politics can have a damaging influence on policy, so an approach of this type will help future prospective investors to have a different perspective regarding the institutional framework.

Results of hypothesis testing

A relatively large sample enabled the testing of the hypotheses in order to establish the location characteristics and their effect on MNEs' location decisions in the Ghanaian banking sector.

Hypothesis 1 posits that *FDI location factors are significant to influence MNEs to locate in the Ghanaian banking sector*. Hypothesis 1 and sub-hypotheses *H1c, H1d, and H1e* received solid support from the findings of this thesis. In other words, macroeconomic policy, infrastructure factors and political and legal factors are important determinants of MNEs decision to locate in the banking sector. Whereas sub-hypotheses *H1a and H1b* were rejected at the 5% significance level indicating that these factors are unimportant in the determination of MNEs' location decision. These results are not uncommon to the findings of the qualitative method of inquiry, which also reveal that political, and legal factors, macroeconomic policy

and infrastructure factors are the factors which MNEs' location decision are based. The outcome of both methods of inquiry thus confirms the findings of Lin and Kwan (2011) and Kedia *et al.* (2012).

7.2 Contribution to the literature

Although there is a rich body of literature which has accumulated on inward FDI into Ghana for example Aryeetey and Killick (2000), Mmieh and Owusu-Frimpong (2004), Twerefou and Aryeetey (2006), Aseidu, (2006), Mmieh and Asimenu (2012) and Mmieh, Owusu-Frimpong and Mordi (2012) in the last decade, the expansion of the banking business across national frontiers has been explosive. The entry of foreign banks is expected to increase competition and the level of service available in host countries (BMI, 2009). On the other hand, it is essential for host nations to protect local banking interests for fear of complete foreign domination. Although the benefits of financial liberalization have been broadly investigated (Choudhry and De Haan, 2009; Kapadi and Agarwal, 2011), views on the effects of foreign participation are still debatable (Fisher and Chenard, 1997; Chavez, *et al*. 1996; Goldstein and Turner, 1996; Honohan, 1997; Weller 2000; Weller and Morzuch, 2000). Evidence on behavioural comparisons between foreign and domestically owned banks remains largely unrecognized (Dages, *et al*. 2000). While many authors have focused on empirical examinations of foreign bank entry effects (Claessens, *et al*. 1998; Clarke, *et al*. 1999; Levine, 1996; Demirgüc-Kunt, Levine and Min, 1998; Bonin and Abel, 2000; Buchs, 2000 amongst others) only a few researchers centre their attention on qualitative assessment regarding foreign bank entry (Konopielko, 1999; Petrick, 1999; Scott-Green, 2002) and scarcely anyone has attempted to combine both qualitative and quantitative research methods

to assess foreign banks' entry effects. The thesis makes the following important contribution to the extant literature by adding that new information (political and legal factors, macroeconomic policy and infrastructure factors) are essential location factors to MNEs in deciding to locate in the Ghanaian banking sector. It is also believed that the thesis would be useful to researchers, academics, existing banking business organizations and would also provide useful information to other foreign banks planning to operate in the Ghanaian banking sector. Hence, this research has been able to fill the research gap in our knowledge on the level of significance of the attraction of FDI in the banking sector and serves as a first step in the context of a developing country - Ghana.

7.3 Methodological contribution

In terms of methodological contribution, the thesis demonstrates the value-added nature of combining both qualitative and quantitative inquiries. There has always been a concern in the social sciences regarding the way social phenomena are investigated. By using qualitative methods the research therefore provides an exploratory nature of providing ways in attempting to unveil the location characteristics of FDI inflows in the Ghanaian banking sector. By using quantitative data, the thesis draws on a primary data set from respondents made up of 130 senior executives (MD/CEO) and managerial and departmental staff involved both directly and indirectly in the decision-making process in the banks in Ghana, thereby confirming the results derived from the qualitative data analysis. Furthermore, the methodology consisted of analysing current relevant literature and interviewing key stakeholders in the banking industry in Ghana. The analyses of the empirical evidence were carried out by grouping the results

into key themes, which ensured that the recurring themes were discussed in detail.

7.4 Theoretical implications

The research builds on the existing literature with an additional contribution of FDI location factors in the Ghanaian banking sector. Firstly, macroeconomic policies drive financial FDI. Focarelli and Pozzolo (2001) found economic growth to be a major characteristic for attracting financial FDI. This thesis has found that economic stability in the host market coupled with a favourable exchange rate in the host market are the most significant factors. Secondly, Goldberg (2004) and Aggarwal (2008) found that the entry into emerging markets of financial MNCs (that are healthy for domestic banks) may allow the country to import stronger prudential regulations and thereby attract other financial MNCs. This research found that political and legal factors are very significant in the attractiveness and significance of locating a bank in Ghana. A robust regulatory framework in the host country provides assurances and most importantly confidence to banks operating in Ghana. Thirdly, infrastructure development plays an important role influencing financial FDI inflows into SSA. This thesis contributes to the growing body of literature claiming that institutional development in the home country affects financial FDI inflows (Hermes and Lensink, 2005; Adams, 2009; Ezeoha, *et al*., 2011 and Mmieh, Owusu-Frimpong and Mordi, 2012). Fourthly, with reference to foreign entry in banking, market and labour market factors are found to be unimportant.

7.5 Practical implication and future research

In keeping with the issues of FDI location factors, the research highlights a number of issues. Firstly, it confirms several theoretical constructs of FDI location related issues. The results lead to several implications of practical importance. In the workplace, this means decision-makers will openly encourage their staff to formally participate in providing feedback on organizational change within the bank. Senior managers, however, can elicit valuable information by showing genuine concern towards their subordinates. Such information can also be put to constructive use by management. As mentioned in the managerial relevance section, this can be part of the compilation document that can be handed over to GIPC and the Bank of Ghana for policy purpose.

Given that this research has not been covered extensively in the past, the results and conclusions of this research therefore constitute a significant platform for future work in this area. This gives the opportunity for scholars to further expand this work by examining the significance of the location factors in other sub-Saharan African countries. To improve upon this work and to validate it, it would be appropriate for future research to study the characteristics of FDI flows in other sectors of the Ghanaian economy using a more robust statistical method or methods to achieve the outcome.

7.6 Research limitations

First, the research has identified some important findings on the significance of location factors in FDI. This research should, however, have looked at other sectors of the economy of Ghana instead of concentrating so heavily on FDI inflows to the banking industry. Second, other robust

econometric/statistical models could have been applied to the data sets used in this research to confirm the findings of this research. Third, the research has limited geographical focus as it concentrates only on FDI location in Ghana. In view of one-country and one-industry case analysis of the Ghanaian banking sector, the generalizability of the results cannot be a fair representation of countries in the SSA region. Nevertheless, this case study gives insightful and useful information of what may be expected in the banking sectors in countries within the SSA region.

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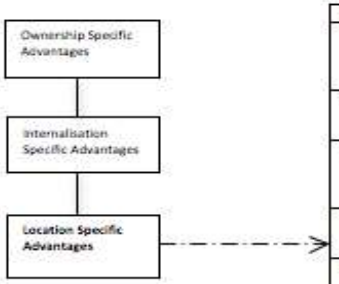
Appendix I African FDI strengths and challenges

African FDI	Strengths	Challenges
Resource seeking	• **Well endowed with natural resources** Nigeria and Angola are in the top 20 oil producers in the world. Indeed African countries make up eleven out of the top fifty countries in terms of proven oil reserves, South Africa, Ghana and Tanzania are in the top twenty gold producers and Zambia and DR Congo are in the top twenty copper producers. • **Large labor force** The working age population is forecast to grow much faster in Africa over the next ten years than in emerging Asia or in Latin America. • **Very competitive cost base** Unit labor costs are expected to remain low in the next ten years. Higher wage inflation in China and India will open up opportunities for other emerging markets in Africa as low-cost producers.	• **Low education levels** In the majority of sub-Saharan African countries, education levels are low but improving. Examples from Latin America and Asia show that vast progress toward 100% secondary education can be made within 25 years. • **Ensuring FDI benefits the community** Often when a country grows fast, inequality also grows and the African countries must ensure that FDI agreements benefit communities.
Market seeking	• Large consumer market for certain products and services e.g. mobile phones and financial services. In Angola, Senegal, Nigeria and Tanzania at least half the population have a mobile phone, up from barely any a decade ago. This number will continue to rise very fast. • The tourism market is potentially very large Tourism already accounts for more than 20% of export revenues in many African countries, including Ethiopia, Egypt and Tanzania, and many countries have large potential to exploit with appropriate investment.	• **Market size** The majority of economies in Africa are very small relative to countries in other regions of the world and the sub-Saharan market is very fragmented. • **GDP per capita** Many of the high-growth sub-Saharan African countries such as Ghana, Nigeria and Ethiopia still have very low per capita incomes compared to emerging countries in other regions, despite enjoying fast growth in recent years. This is partly due to high inequality in many countries. • **Raising consumer spending** Though the consumer base in Africa is large, current incomes are low and this will limit the market size for sales of consumer products initially but the potential for growth in consumption remains substantial.
Efficiency seekng	• Proximity and historical/cultural/linguistic links to the EU In 2011, more than 50% of exports from Cameroon, Morocco, Mozambique and Tunisia went to the Eurozone. North Africa has particularly good proximity and trading links with Europe. By 2020, Europe's exports to Africa and the Middle East will be around 50% larger than its exports to the US. • Straddles time zones across Asia, US, EU Africa shares part of its working day with Asia, the US and the EU.	• **Infrastructure** Transport and telecommunications frameworks are underdeveloped relative to other emerging regions such as Asia and Latin America. But this has been improving and will continue to do so. • **Ease of doing business** Many countries in sub-Saharan Africa rank lower than emerging Asia and Latin America in the World Bank's Doing Business Index. However, the survey revealed that 36 of 46 governments improved their economy's regulatory environment for domestic businesses in 2010-11—a record number since 2005.
Strategic motives	• **Growth potential** Africa is forecast to grow significantly faster than the world average over the next five years.	• **Political stability-Democracy** In the near term, establishing political stability is a key concern for the Middle East and North Africa. In the medium and longer term, strengthening the foundations of democracy and improving the environment for business, should help to boost potential growth in a number of sub-Saharan African countries.

Source:
www.siliconrepublic.com/download/fs/doc/.../africaattractiveness.pdf

Appendix II Review of relevant FDI literatures (Summary)

The tenets of the eclectic Paradigm



Source: Dunning (1977, 2000a, 2000b 2002))

Major and Sub-factors

Major factors	Sub factors
Costs	Fixed costs; transportation costs; wage rates and trends in wages; energy costs; other manufacturing costs; land cost; construction/leasing costs and other factors (e.g. R&D transaction and management costs etc.) costs,
Labour characteristics	Quality of labour force; availability of labour force; unemployment rate; labour unions; attitudes towards work and labour turnover; motivation of workers and work force management
Infrastructure	Existence of modes of transportation (airports, railroads, roads and sea ports); quality and reliability of modes of transportation; quality and reliability of utilities (e.g. water treatment, power supply, etc.) and telecommunication systems supply, waste
Proximity to suppliers	Quality of suppliers; alternative suppliers; competition for suppliers; nature of supply process (reliability of the system) and speed and responsiveness of suppliers
Proximity to markets/customers	Proximity to demand; size of market that can be served/potential customer expenditure; responsiveness and delivery time to markets; population trends and nature and variance of demand
Proximity to parent company's facilities	Close to parent company
Proximity to competition	Location of competitors
Quality of life	Quality of environment; community attitudes towards business and industry; climate, schools, churches, hospitals, recreational opportunities [for staff and children]; and standard of living education system; crime rate
Legal and regulatory framework	Compensation laws; insurance laws; environmental regulations; industrial relations laws; legal system; bureaucratic red tape; requirements for setting up local corporations; regulations concerning joint ventures and mergers and regulations on transfer of earnings out of country rate
Economic factors	Tax structure and tax incentives; financial incentives; custom duties; tariffs; inflation; strength of currency against US dollar; business climate; country's debt; interest rates/exchange controls and GDP/GNP growth, income per capita
Government and political factors	Record of government stability; government structure; consistency of government policy; and attitude of government to inward investment
Social and cultural factors	Different norms and customs; culture; language and customer characteristics
Characteristics of a specific location	Availability of space for future expansion; attitude of local community to a location; physical conditions (e.g. weather, close to other businesses, parking, appearance, accessibility by customers materials/resources and location of suppliers

Source: Adopted from MacCarthy and Atthirawong (2003)

Explanatory Variables

	Sign of estimated coefficient		
Explanatory variables	**Positive and significant**	**Negative and significant**	**Insignificant**
Market size	Billington (1999) Schneider and Frey (1985) Chakrabarti (2002)	Edwards (1990) Jaspersen et al. (2000)	Loree and Guisinger (1995) Wei (2000)
Labour cost	Wheeler and Mody (1992)	Chakrabarti (2002) Schneider and Frey (1985)	Loree and Guisinger (1995) Loree and Guisinger (1995)
Openness	Asiedu (2002) Edwards (1990) Gastanaga et al. (1998)		Wheeler and Mody (1992)
Taxes and tariffs	Loree (1980)	Culpan (1998) Gastanaga et al. (1998) Loree and Guisinger (1995) Guisinger (1995) Wei (2000)	Jackson and Markowski (1992) Wheeler and Mody (1992)
Political instability		Edwards (1990) Schneider and Frey (1985) Loree and Guisinger (1995)	Asiedu (2002) Jaspersen et al. (2000)
Inflation		Reinhart and Rogoff (2002)	Asiedu (2002)
Corruption		Gastanaga et al. (1998) Reinhart and Rogoff (2002)	
Infrastructure quality	Asiedu (2002)		

Source: Adapted from Helpman et al. (2004)

Appendix III

Banks Operating in Ghana as at July 2010

Bank	Year of Establishment	Number of Branches as at 2009	Geographical Distribution of Banks	Age	Bank Origin	Majority Ownership
Access Bank (Ghana) Ltd*	1988			22	Nigeria	Foreign
Agricultural Development Bank	1965	51	All Regions	45	Ghana	Local
Amalgamated Bank Ltd	1999	11	4 Regions	11	Nigeria	Foreign
ARB Apex Bank Ltd	2001	10	All Regions	9	Ghana	Local
Bank of Baroda	2008	1	1 Region	2	India	Foreign
Banque Sahelo-Saharienne Pour L'investissement Et Le Commerce	2008	2	1 Region	2	Libya	Foreign
Barclays Bank of Ghana Ltd	1917	142	All Regions	93	UK	Foreign
Cal Bank Ltd	1990	12	3 Regions	20	Ghana	Local
Ecobank Ghana ltd	1990	30	5 Regions	20	Ghana	Foreign
Fidelity Bank Ltd	2006	8	2 Regions	4	Ghana	Local
First Atlantic Merchant Bank Ghana Ltd	1995	4	2 Regions	15	Ghana	Local
Ghana Commercial Bank	1953	147	All Regions	57	Ghana	Local
Guaranty Trust Bank (Ghana) Ltd	2005	6	3 Regions	5	Nigeria	Foreign
HFC Bank (Ghana) Ltd	2003	11	4 Regions	7	Ghana	Local
Intercontinental Bank (Ghana) Ltd	2006	14	4 Regions	4	Nigeria	Foreign
International Commercial Bank Ltd	1996	11	4 Regions	14	Malaysia	Foreign
Merchant Bank (Ghana) Ltd	1972	15	5 Regions	38	Ghana	Local
National Investment Bank Limited	1963	25	All Regions	47	Ghana	Local
Prudential Bank Ltd	1994	13	3 Regions	16	Ghana	Local
SG-SSB Ltd	1973	39	All Regions	37	French	Foreign
Stanbic Bank Ghana Ltd	1999	16	3 Regions	11	RSA	Foreign
Standard Chartered Bank Ghana Ltd	1894	19	5 Regions	116	UK	Foreign
The Trust Bank Ltd	1995	16	3 Regions	15	Ghana	Local
Unibank Ghana ltd	2000	12	2 Regions	10	Ghana	Local
United Bank for Africa (Ghana) Ltd	2004	18	3 Regions	6	Nigeria	Foreign
UT Bank Ltd	1995	27	7 Regions	15	Ghana	Foreign
Zenith Bank (Gh) Ltd	2005	11	5 Regions	5	Nigeria	Foreign

*Universal License was granted by BOG in 2009

Appendix IV

Please mark the appropriate answer in the boxes below. Please choose only one aswer for each question

Part 1(a) What is the level of significance of FDI location factors in the banking sector in Ghana?

A) MARKET FACTORS

1. Large size of the host market

1. VeryInsignificant	2.Insignificant	3. Netural	4.Significant	5. Very Significant

2. Market growth in host market

1. VeryInsignificant	2.Insignificant	3. Netural	4.Significant	5. Very Significant

3. Level of competition in the host market

1. VeryInsignificant	2.Insignificant	3. Netural	4.Significant	5. Very Significant

4. Market familiarity in host market

1. VeryInsignificant	2.Insignificant	3. Netural	4.Significant	5. Very Significant

B) LABOUR MARKET

1. Labour cost in the host market

1. VeryInsignificant	2.Insignificant	3. Netural	4.Significant	5. Very Significant

2. Return on investment in the host market

1. VeryInsignificant	2.Insignificant	3. Netural	4.Significant	5. Very Significant

3. Availabilty of well qualified workforce in the host market

1. VeryInsignificant	2.Insignificant	3. Netural	4.Significant	5. Very Significant

C) MACROECONOMIC POLICY

1. Economic stability in the host market

1. VeryInsignificant	2.Insignificant	3. Netural	4.Significant	5. Very Significant

2. Economic growth in host market

1. VeryInsignificant	2.Insignificant	3. Netural	4.Significant	5. Very Significant

3. Exchange rate in the host market

1. VeryInsignificant	2.Insignificant	3. Netural	4.Significant	5. Very Significant

D) INFRASTRUCTURE

1. Level of infrastructure in the host market

1. VeryInsignificant	2.Insignificant	3. Netural	4.Significant	5. Very Significant

2. Geographical proximity in host market

1. VeryInsignificant	2.Insignificant	3. Netural	4.Significant	5. Very Significant

E) POLITICAL AND LEGAL FRAMEWORK

1. Political stability in the host market

1. VeryInsignificant	2.Insignificant	3. Netural	4.Significant	5. Very Significant

2. International trade agreement in host market

1. VeryInsignificant	2.Insignificant	3. Netural	4.Significant	5. Very Significant

3. Government tax incentive to foreign banks

1. VeryInsignificant	2.Insignificant	3. Netural	4.Significant	5. Very Significant

4. Diplomatic ties in the host market

1. VeryInsignificant	2.Insignificant	3. Netural	4.Significant	5. Very Significant

5. Legal and regulatory system in host market

1. VeryInsignificant	2.Insignificant	3. Netural	4.Significant	5. Very Significant

5. Legal and regulatory system in host market

1. VeryInsignificant	2.Insignificant	3. Netural	4.Significant	5. Very Significant

Thank you for filling out this questionnaire.

Appendix V

Brunel Business School, Uxbridge

Middlesex, UB8 3PH, UK

Direct Telephone: +44 1895 265367

Email Address: ernest.asimenu@brunel.ac.uk

Re: FDI location characteristics of MNEs location decisions in the Ghanaian banking sector

I am writing to seek your cooperation in a research project examining location characteristics in the Ghanaian banking sector. This research project is self-funded and part fulfilment for a PhD at Brunel University Business School. The project is designed to gather information on a range of issues that affect why banks will choose Ghana as location destination.

I would like the managers in your organisation to participate in the project and I am seeking your permission to distribute a questionnaire, a copy of which I have enclosed for your consideration.

For participating banks a summary report will be produced detailing the main findings of the project. All information supplied will be treated in strict confidence and individual respondents will not be identified by name or organisation. Trust identities will be concealed.
Please could you complete the enclosed reply form and return it in the prepaid envelope provided. If you have any comments or questions concerning the project or questionnaire itself, please do not hesitate to contact me on my direct telephone number or at the postal or email address stated above.

Thank you in anticipation of your co-operation.

Yours sincerely,

Ernest Asimenu

Appendix VI

Brunel
UNIVERSITY
WEST LONDON

Brunel University, Uxbridge,
Middlesex, UB8 3PH, UK
Telephone +44 (0)1895 274000
Web www.brunel.ac.uk

Brunel Business School
Research Ethics Committee

22 October 2010

STATEMENT OF ETHICS APPROVAL

Proposer: Ernest Asimenu

Title: The impact of foreign entry in the banking sector in the SSA Region: The case of Ghana

It should be noted that, the Brunel Business School's research ethics committee has considered the above named proposal. Acting under a delegated authority, the committee is satisfied that there is no objection on ethical grounds to the proposed study. Approval is given on the understanding that the applicant will adhere to the terms agreed with participants and to inform the committee of any change of plans in relations to the information provided in the application form.

Should you require further information, please do not hesitate to contact me.

Yours sincerely,

Dr. Tillal Eldabi
Chair, Research Ethics Committee
Brunel Business School

Appendix VII INTERVIEW QUESTIONS – CEO/MD AND MANAGERIAL STAFF

A/ Background Information

Year of registration in Ghana:

.....

Number of employees in Ghana:

.....

Country of origin:

.....

General information on the applicant

Name (optional):

.....

Department / position within the bank:

.....

Time in employment within the bank (years):

……

Any other relevant information (e.g., experience):

.....

.....

.....

.....

.....

.....

B/ Decision for establishing in Ghana

1. Could you describe your role in the bank and any previous experience you may have had managing a similar bank other than in Ghana?
2. What location characteristics constitute the attraction of FDI to the banking sector in Ghana? Can you please rank the following characteristics in order of significance

   1 = Very Insignificant, 2 = Insignificant, 3 = Netural, 4 = Significant, 5 = Very Significant

Macroeconomic Policy	**1**	**2**	**3**	**4**	**5**
Market Factors	**1**	**2**	**3**	**4**	**5**
Labour Market	**1**	**2**	**3**	**4**	**5**
Political and Legal factors	**1**	**2**	**3**	**4**	**5**
Infrastructure	**1**	**2**	**3**	**4**	**5**

3. Please can you tell me if you were involved in the decisionmaking process in locating in Ghana?
4. Please tell me why your bank chose Ghana as a location destination

Appendix VIII - INTERVIEW QUESTIONS – POLICYMAKERS

Name (optional):

…….....

Department/position within the organisation:

……...

Time in employment within the organisation (years):

…….

Any other relevant information (e.g., experience):

.....

.....

.....

.....

.....

.....

5. Please can you describe some of your main functions within your organisations?
6. Please can you tell me Ghana's policy in attracting FDI?
7. Can you please tell me how many foreign investors invest in the banking sector?
8. Which of these location factors do you consider to be significant for the attraction of FDI to the banking sector in Ghana?

1 = Very Insignificant, 2 = Insignificant, 3 = Neutral, 4 = Significant, 5 = Very Significant

Macroeconomic Policy	**1**	**2**	**3**	**4**	**5**
Market Factors	**1**	**2**	**3**	**4**	**5**
Labour Market	**1**	**2**	**3**	**4**	**5**
Political and Legal factors	**1**	**2**	**3**	**4**	**5**
Infrastructure	**1**	**2**	**3**	**4**	**5**

9. What is your opinion of foreign investors regarding the incentives provided by the Ghanaian Government?
10. Please can you tell me in your opinion why Ghana has not attracted more FDI inflows into the financial sector ?

Appendix IX distribution of questionnaire

List of Informants	Department / Position within the Bank/Organisation	Time in employment within the Bank/Organisation (years)	Sex	Total
ALPHA BANK				
A1 - XMD1	Managing Director	5	Male	
A2 – YD1	Director	3	Male	
A3 – YD2	Director	3	Male	
A4 – YD3	Director	4	Female	
A5 – YD4	Director	4	Male	
A6 – YD5	Director	2	Male	
A7 – ZMS1	Managerial Staff	3	Male	
A8 – ZMS2	Managerial Staff	5	Male	
A9 – ZMS3	Managerial Staff	5	Female	
A10 – ZMS4	Managerial Staff	2	Male	
A11 – ZMS5	Managerial Staff	1	Male	
A12 – ZMS6	Managerial Staff	2	Female	
Subtotal				12
BRAVO BANK				
B1 - XMD1	Managing Director	4	Male	
B2 – YD1	Director	6	Male	
B3 – YD2	Director	5	Male	
B4 – ZMS1	Managerial Staff	4	Male	
B5 – ZMS2	Managerial Staff	8	Male	
B6 – ZMS3	Managerial Staff	5	Male	
B7 – ZMS4	Managerial Staff	2	Male	
B8 – ZMS5	Managerial Staff	6	Male	
B9 – ZMS6	Managerial Staff	5	Female	

B10 – ZMS7	Managerial Staff	4	Female	
B11 – ZMS8	Managerial Staff	4	Female	
B12 – ZMS9	Managerial Staff	3	Male	
B13 – ZMS10	Managerial Staff	2	Male	
B14 – ZMS11	Managerial Staff	6	Male	
Subtotal				14
CHARLIE BANK				
C1 - XMD1	Managing Director	3	Male	
C2 – YD1	Director	5	Male	
C3 – YD2	Director	5	Female	
C4 – YD3	Director	4	Male	
C5 – ZMS1	Managerial Staff	5	Female	
C6 – ZMS2	Managerial Staff	4	Male	
C7 – ZMS3	Managerial Staff	4	Male	
C8 – ZMS4	Managerial Staff	2	Male	
C9 – ZMS5	Managerial Staff	3	Male	
C10 – ZMS6	Managerial Staff	4	Male	
Subtotal				10
DELTA BANK				
D1 - XMD1	Managing Director	3	Male	
D2 – YD1	Director	2	Male	
D3 – YD2	Director	4	Male	
D4 – YD3	Director	5	Male	
D5 – YD4	Director	6	Male	
D6 – YD5	Director	3	Male	
D7 – ZMS1	Managerial Staff	6	Male	
D8 – ZMS2	Managerial Staff	6	Male	
D9 – ZMS3	Managerial Staff	4	Male	
D10 – ZMS4	Managerial Staff	3	Female	

D11 – ZMS5	Managerial Staff	2	Male	
D12 – ZMS6	Managerial Staff	2	Male	
D13 – ZMS7	Managerial Staff	2	Male	
D14 – ZMS8	Managerial Staff	1	Male	
D15 – ZMS9	Managerial Staff	4	Male	
D16 – ZMS10	Managerial Staff	3	Female	
Subtotal				16
ECHO BANK				
E1 – YD1	Director	5	Female	
E2 – YD2	Director	4	Female	
E3 – YD3	Director	6	Male	
E4 – YD4	Director	3	Male	
E5 – YD5	Director	4	Male	
E6 – YD6	Director	2	Male	
E7 – YD7	Director	5	Male	
E8 – YD8	Director	1	Male	
E9 – YD9	Director	5	Male	
E10 – YD10	Director	4	Female	
E11 – ZMS1	Managerial Staff	7	Male	
E12 – ZMS2	Managerial Staff	4	Male	
E13– ZMS3	Managerial Staff	4	Male	
E14 – ZMS4	Managerial Staff	3	Male	
E15 – ZMS5	Managerial Staff	2	Male	
E16 – ZMS6	Managerial Staff	6	Male	
E17 – ZMS7	Managerial Staff	5	Male	
E18 – ZMS8	Managerial Staff	2	Female	
E19 – ZMS9	Managerial Staff	1	Male	
E20 – ZMS10	Managerial Staff	6	Female	
Subtotal				20

FOXTROT BANK				
F1 - XMD1	Managing Director	7	Male	
F2 – YD1	Director	5	Male	
F3 – YD2	Director	6	Male	
F4 – YD3	Director	4	Male	
F5 – YD4	Director	5	Male	
F6 – YD5	Director	5	Male	
F7 – ZMS1	Managerial Staff	10	Male	
F8 – ZMS2	Managerial Staff	8	Female	
F9– ZMS3	Managerial Staff	5	Female	
F10 – ZMS4	Managerial Staff	12	Male	
F11 – ZMS5	Managerial Staff	6	Male	
F12 – ZMS6	Managerial Staff	5	Female	
F13 – ZMS7	Managerial Staff	4	Female	
F14 – ZMS8	Managerial Staff	3	Female	
F15 – ZMS9	Managerial Staff	6	Male	
F16 – ZMS10	Managerial Staff	2	Male	
F17 – ZMS11	Managerial Staff	5	Male	
F18 – ZMS12	Managerial Staff	8	Male	
F19 – ZMS13	Managerial Staff	4	Male	
F20 – ZMS14	Managerial Staff	3	Female	
F21 – ZMS15	Managerial Staff	1	Male	
F22 – ZMS16	Managerial Staff	1	Male	
F23 – ZMS17	Managerial Staff	5	Male	
F24 – ZMS18	Managerial Staff	2	Male	
F25 – ZMS19	Managerial Staff	5	Female	
F26 – ZMS20	Managerial Staff	3	Male	
Subtotal				26
GOLF BANK				

G1 - XMD1	Managing Director / CEO	5	Male	
G2 – YD1	Director	3	Male	
G3 – YD2	Director	4	Male	
G4 – YD3	Director	4	Female	
G5 – YD4	Director	5	Male	
G6 – ZMS1	Managerial Staff	7	Female	
G7 – ZMS2	Managerial Staff	4	Male	
G8– ZMS3	Managerial Staff	4	Male	
G9 – ZMS4	Managerial Staff	5	Male	
G10 – ZMS5	Managerial Staff	1	Male	
G11 – ZMS6	Managerial Staff	8	Male	
G12 – ZMS7	Managerial Staff	3	Male	
G13 – ZMS8	Managerial Staff	5	Female	
G14 – ZMS9	Managerial Staff	4	Male	
G15 – ZMS10	Managerial Staff	6	Female	
G16 – ZMS11	Managerial Staff	3	Male	
G17 – ZMS12	Managerial Staff	2	Male	
G18 – ZMS13	Managerial Staff	6	Male	
G19 – ZMS14	Managerial Staff	5	Male	
G20 – ZMS15	Managerial Staff	3	Male	
Subtotal				20
POLICYMAKERS				
BOG1	Head of Research	8	Male	
BOG2	Policy Analyst	7	Male	
BOG3	Senior Economist	10	Male	
BOG4	Economic Researcher	6	Female	
BOG5	Senior Economist	6	Male	
MOFEP				

MOFEP1	Senior Economic and Investment Consultant	7	Male	
MOFEP2	Economic Consultant	5	Female	
MOFEP3	Economic and Financial Advisor	7	Male	
GIPC				
GIPC1	Head of Department	5	Male	
GIPC2	Senior Officer	6	Male	
MOTI				
MOTI1	Economic Researcher	4	Male	
MOTI2	Economic Researcher	6	Male	
Subtotal				12
				130

Appendix X A comparison of cross-case financial MNEs operating in Ghana

Financial MNE	***Alpha bank***	***Bravo bank***	***Charlie bank***	***Delta bank***	***Echo bank***	***Foxtrot bank***	***Golf bank***
Year of Incorporation	2009	1999	2004	2011	2004	1980	2005
No of branches	39	23	10	20	28	10	24
Legal status	Private Ltd Co.	Private Ltd Co. 70% Parent Company Foreign	95.72% Parent Company Foreign	Private Ltd Co.	59% Private Investment	Private Ltd Liability Co.	Subsidiary of a PLC
Nationality	Foreign	Foreign	Foreign	Foreign	Foreign	Foreign	Foreign
Services	• Personal Banking • Corporate Banking • E banking	• Personal and Business Banking • Corporate and Investment Banking	• Private Banking • Business Banking • E banking	• Commercial Banking • Wide range of financial products and services that cover retail and SME and corporate Banking	• Corporate Banking • Universal Banking • Money transfer services	• Personal Banking • Business Banking • Corporate and Investment Banking	• Corporate Products • Individual Products • Payment Services
Employees in Ghana		Over 500	490		600		
Employees Worldwide		50,000			14,000		
International Business	Part of a group made of 9 African markets spanning SSACs, 3 monetary zones and the UK	Extensive operation in 18 African Countries 13 outside the continent		Presence in 14 African Countries		Operating in 32 Countries across the Continent	

Source: Interviews by the researcher and Annual Reports of the financial MNEs operating in Ghana