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<p>Monikansallisten yritysten suorat investoinnit ulkomaille ovat nousseet merkittävään rooliin kansainvälisen liiketoiminnan tasaisen kasvun myötä kahden viime vuosikymmen aikana. Suorat investoinnit Etelä-Saharan alueelle Afrikassa ovat myös merkittävästi lisääntyneet. Kuitenkin vain muutama tutkimus on empiirisesti tarkastellut tekijöitä, jotka vaikuttavat suoriin investointeihin kyseiselle alueelle. Suurin osa tutkimuksista on keskittynyt makrotason tarkasteluihin, joka ei ota huomioon monikansallisten yritysten strategioita. Tästä havainnosta nousee tutkimuksen pyrkimys tunnistaa monikansallisten yritysten strategiat ja selvittää, kuinka ne vaikuttavat tytäryhtiöiden menestymiseen Ghanan kontekstissa. Tutkimuksessa analysoidaan, kuinka omistajuuteen, sijaintiin, kansainvälistymiseen, ja transaktiokustannuksiin liittyvät piirteet ovat vaikuttaneet Ghanaan suuntautuneiden suorien ulkomaisten investointien motiiveihin, perustamiseen ja omistajuusmuodon valintaan sekä perustettujen tytäryhtiöiden suoriutumiseen. Edellä mainittujen tekijöiden analysoimiseksi hyödynnetään tutkimuksessa kahta teoreettista viitekehystä: eklektistä paradigmat ja transaktiokustannusteoriaa. Metodologinen lähestymistapa on kvantitatiivinen tutkimusaineiston koostuessa Ghanaassa sijaitsevien ulkomaisten tuotantoyritysten johtajille lähetetyistä kyselylomakkeista. Otos käsittää 75 ulkomaisten yritysten suoraa investointia Ghanaan vuosina 1994–2008. Tutkimuksen hypoteeseja investointimotiiveista sekä perustamis- ja omistajuusmuodosta testataan binomisen logistisen regressioanalyysin avulla. Pienimmän neliösumman menetelmää puolestaan käytettiin analysoitaessa tytäryhtiön suoriutumiseen liittyviä hypoteeseja.</p> <p>Tutkimustulokset tarjoavat useita hyödyllisiä näkemyksiä ulkomaisten yritysten motiiveihin, perustamismuotoihin ja omistajuusvalintoihin toimittaessa Ghanan kontekstissa. Tulokset osoittavat, että suuri markkinakoko motivoi ulkomaisia yrityksiä suoriin investointeihin. Sen sijaan suuri kulttuurinen etäisyys ja laaja kansainvälinen kokemus heikentävät motivaatiota. Tytäryhtiön perustamismuodon valintaan liittyen todettiin, että suuri yrityskoko, kansainvälinen kokemus ja suuri markkinakoko johtavat yritysostoilla kansainvälistymiseen, kun taas suuri kulttuurinen etäisyys, korkea maariski ja korkeat patenttimaksut johtavat täysin uuden yrityksen perustamisen suosimiseen. Samoin tulokset osoittavat, että kannustimet vaikuttavat ulkomaisten yritysten päätökseen valita uuden yrityksen perustaminen Ghanaan yritysoston sijasta. Omistajuusmuodon valintaan liittyen tulokset osoittavat, että korkea sopimusriski johtaa kokonaan omistettujen tytäryhtiöiden suosimiseen. Lisäksi tulokset osoittavat, että tehokkuutta ja resursseja korostava motivaatio suoriin ulkomaisiin investointeihin Ghanaassa johtaa yhteisyritysmuodon valintaan omistajuudessa. Tytäryhtiöiden suoriutumisen suhteen tulokset osoittavat, että suuri markkinakoko, kokemus isäntämaasta, perustamismuodoista investointi uuteen yritykseen ja omistajuusmuodoista yhteisyritys vaikuttivat positiivisesti kokonais-suoriutumiseen. Sitä vastoin korkea kulttuurinen etäisyys, korkea maariski, kansainvälinen kokemus ja investoinnin tekeminen korkean T&K intensiteetin toimialoilla vaikuttivat negatiivisesti suoriutumiseen. Lisäksi, suuri markkinakoko, kannustimet, yritysten ikä, investointi uuteen yritykseen ja yhteisyritys-omistajuus vaikuttivat positiivisesti kannattavuuteen. Lisäksi havaittiin, että Ghanan kontekstissa korkea maariski ja investoinnin tekeminen korkean T&K intensiteetin toimialoilla vaikuttivat negatiivisesti kannattavuuteen. Lisäksi perustamismuotona uuteen yritykseen investointi ja yhteisyritys-omistajuusmuoto vaikuttavat positiivisesti sekä suoriutumiseen että kannattavuuteen. Kuitenkaan yksikään tutkimukselle asetetuista vuorovaikutushypoteeseista ei saanut empiiristä tukea. Myöskään historiallisilla sidoksilla ei näytä olevan vaikutusta perustamis- ja omistajuusmuodon valintaan tai menestymiseen Ghanaassa.</p>	<p>Sivumäärä 204</p>	<p>Kieli englanti</p>
<p>Asiasanat Suora ulkomainen investointi, eklektinen paradigma, transaktiokustannusteoria, perustamismuoto, omistajuusmuoto, tytäryhtiön suoriutuminen, ulkomainen tuotantoyhtiö, Ghana</p>		

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Abstract <p>Foreign direct investments (FDI) by multinational enterprises (MNEs) have become immensely significant as the extent of international business has grown steadily during the last two decades. FDI inflows into Sub-Saharan African have also increased significantly in the decade. However, very few empirical studies have analysed the factors that determine FDI inflows into the region. Most of the extant research on the region have been done at the macro level without taking into consideration the strategies of MNEs. For these reasons, it is important to identify the strategies of MNEs and how they affect the performance of subsidiaries in the context of Ghana. This study analyses how ownership, location, internalization, and transaction cost specific factors have influenced the FDI motives, establishment and ownership mode strategies of foreign firms and their impacts on subsidiary performance in the context of Ghana. It uses two theoretical frameworks, i.e. the eclectic paradigm and transaction cost theory, to analyse these factors. A quantitative approach employing survey questionnaires delivered to managers of foreign manufacturing firms in Ghana was adopted. The study sample consisted of 75 FDIs made by foreign MNEs during 1994 – 2008. The data analysis used a binomial logistic method to analyze the data and test hypotheses relating to motives, establishment and ownership choice, while ordinary least square was used to analyze the data and test hypotheses relating to performance.</p> <p>The study findings offer useful insights into the motives, establishment mode, ownership choice, and performance of foreign firms in Ghana. With regard to motivation, the results of the study indicate that large market size influences the motivation of foreign firms to undertake market-seeking FDIs. In contrast, large cultural distance and extensive international experience decrease the motivation of foreign firm to undertake market-seeking FDI. With regard to the establishment mode, it was found that large firm size, international experience and large market size result in a preference for an acquisition mode of entry by the foreign firms, while high cultural distance, high country risk, and high proprietary assets result in a preference for a greenfield mode of entry. Similarly, the results indicate that incentives influence foreign firms' decision to choose a greenfield mode of entry into Ghana. With regard to the ownership mode, the results indicated that high contractual risk results in a preference for wholly-owned subsidiary modes of ownership in Ghana by foreign firms. In addition, the results reveal that the efficiency-seeking and resource-seeking motive of FDIs lead to a preference for a joint venture mode of ownership. With regard to performance, the results indicated that large market size, host country experience, greenfield, and JV had positive impacts on overall performance. In contrast, cultural distance, high country risk and more international experience and proprietary assets negatively impacted on performance. In addition, large market size, incentives, age of the firms, greenfield, and joint ventures had positive impacts on profitability. Furthermore, the results indicate that high host country risk and high proprietary assets negatively impact on profitability in the context of Ghana. Also, the results show that greenfield JV positively impacts on both performance and profitability. However, none of the interaction hypotheses of the study receive empirical support. Finally, historical ties do not have any impact on establishment and ownership mode choice or performance in the context of Ghana.</p>		
Keywords Foreign direct investment, eclectic paradigm, transaction cost theory, motives, establishment mode, ownership mode, subsidiary performance, foreign manufacturing firm, Ghana		

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1 INTRODUCTION

1.1 Background of the study

Globalization has led to a rapid growth in the number of MNEs that have been investing abroad in recent years. FDI has become enormously significant as the magnitude of international business has grown gradually during the last two decades. This development has occurred for several reasons, including the evolution and development of free-market economies around the world, the growth of international financial markets, the proliferation of regional integration between nations, and the numerous communication and technological developments that make managing far flung businesses easier. However, foreign direct investment possesses characteristics that make it highly sought after on the one hand and controversial on the other (Barlett & Ghoshal 1989; Dunning 1992).

The word FDI usually brings to attention the significant contribution of foreign investment to domestic development. FDI has been defined differently by different scholars. Dunning (1993:5) defines FDI as investments “out of the home country of the investing company, but inside the investing company”. He also emphasizes that FDI consists of a “package of assets and intermediate products, such as capital, technology, management skills, access to markets, and entrepreneurship”. The International Monetary Fund (IMF 1993:359) defines FDI as an investment that reflects the objective of obtaining a lasting interest by the resident entity in one economy of an enterprise resident in another economy. Lasting interest implies the existence of a long-term relationship between the direct investor and foreign enterprise and a significant degree of influence by the investor on the management of the enterprise. As noted by Albuquerque (2000), FDI does not necessarily require capital flows or investment in capacity. Basically, it is an extension of corporate control over international boundaries other than that of a source/home country. Thus, in view of the above definitions, FDI can be referred to as an investment involving a long-term relationship and control or significant degree of influence by the resident enterprise of one economy (direct investor) in another enterprise resident in an economy other than that of the investor. A direct investment enterprise can be a subsidiary (a non-resident investor owning more than 50%), an associate (an investor owning 50% or less) or a branch (wholly or jointly owned unincorporated enterprises) either directly or indirectly owned by the foreign investor. The influence by the foreign investor in the enterprise arises from firm specific ownership, a monopolistic advantage that allows MNEs to outperform indigenous firms in international business and local markets (Jensen 2006).

FDI is seen as an engine of growth as it provides the much-needed capital for investment, increases competition in the host-country industries, and aids local firms to become more productive by adopting more efficient technologies or by investing in human and/or physical capital. Researchers (e.g. De Gregorio 1992; Giroud 2007; Lensink & Morrissey 2000; Olivia & Rivera-Batiz 2002) argue that foreign direct investment (FDI) contributes to the economic growth of a country. Domestic investment may accelerate economic growth but new technology needed for economic growth is acquired only through FDI (Yao & Wei 2007). Thus, the benefits of FDI include serving as a source of capital, employment generation, facilitating access to foreign markets, and generating both technological and efficiency spillover to local firms. It is expected that, by providing access to foreign markets, transferring technology and generally building capacity in the host-country firms, FDI will inevitably improve the integration of the host country into the global economy and foster growth and development. However, the role of FDI in promoting such beneficial goals has not been without controversy. A number of scholars claimed that the activities of MNCs can displace local firms that cannot cope with competition from foreign firms, thereby reducing the growth of the local firms (Jones, 1996). Furthermore, Aitken and Harrison (1999) found both positive and negative effects of FDI on local firms in their study of Venezuela.

Notwithstanding the controversy surrounding FDI, it has been argued that its advantages outweigh the disadvantages. It has also been cited by many scholars that private investment has become the most important source of finance for developing countries, providing many benefits to recipient countries. Such benefits include increased economic growth and a positive spillover from transferring technology to domestic firms (Caves 1982; Helleiner 1989; Haddad & Harrison, 1993). Furthermore, foreign presence accelerates productivity growth (Aitken & Harrison, 1999) and multinational's corporations (MNCs) have had direct and indirect positive employment effects on manufacturing and services (Haddad & Harrison 1993; Chitraker & Weiss 1995). FDI is also more stable and "less volatile (as measured by the coefficient of variation) than commercial bank loans and foreign portfolio flows" (World Bank 1999).

Over the last decade, developing countries have attracted significant amounts of private capital flows to augment low levels of domestic savings and government revenues. During the period 1982-1999, most FDI flows to developing countries were directed towards Asia and Latin America. According to the WIR (2001) FDI inflows to Africa declined from \$10.5 billion in 1999 to \$9.1 billion in 2000. FDI to African countries peaked in 2008 at USD 72 billion (UNCTAD 2010a), five times the value of FDI receipts in 2000. The rise in FDI up to 2008 was supported by a surge in prices for raw materials, particularly oil, which triggered a

boom in commodity-related investment. The global financial crisis had a twofold negative impact. First, investors suffered and reduced their investment volume. At the same time, the crisis lowered demand for Africa's commodities. This reduced capital investment to the mining and commodity sectors where most foreign investment has historically been concentrated in Africa. Consequently, FDI inflows to African countries fell by 20%, to USD 60.1 billion in 2009. In 2009, FDI flows to developing countries amounted to \$478.35 billion, in which the share of whole of Africa was \$60.1 billion (12.2%). For the same year, the stock of FDI in the developing world was placed at \$4.89 trillion, of which the Africa continent share was \$514.76 billion (10.55%) (UNCTAD 2010). In 2010, the inflows to Africa declined to \$55 billion (UNCTAD 2011).

Angola, Nigeria, Morocco, Egypt, and South Africa are the major recipients of FDI in Africa. A group of African countries including Ghana, Botswana, and Equatorial Guinea have recently attracted rapidly increasing FDI inflows mainly to the natural resource sectors and for the acquisition of privatized companies. FDI business environments in African countries have been perceived to be economically and politically unstable and FDI inflows, in particular outside the natural-resource extraction sector, remained relatively sparse (MIGA 2011). This is also reconfirmed by the World Investment Prospect survey conducted by UNCTAD in 2009, in which multinational investors indicated that they continue to have low preference in Sub-Saharan Africa as a future investment location (UNCTAD 2009a). Africa still lags behind other regions in the world in terms of total FDIs and the required conducive environment for investments to succeed. The image of Africa as a location for foreign direct investment has not been favourable (Owusu & Habiyakare 2011).

The reason assigned for a lack of FDI in Africa countries are various political, economic and administrative constraints, which make conducting business difficult. Instability takes many forms such as the overthrow of governments, (Gyimah-Brampong & Traynor 1999) or other forms of political, social and economic turbulence (Owusu & Habiyakare 2011). According to Asiedu (2004) and Mlambo (2005), in Sub-Sahara Africa the level of risk perceived by foreign investors is very high due to the instability of the macroeconomic environment, which is a critical determinant of FDI inflows. One of the main indicators of economic uncertainty is the inflation rate. Several factors contribute to the instability of inflation in African countries including inadequate monetary policy, inconsistent investment policies, and deficient financial systems (Mlambo 2005). In addition, high corporate taxes in many African countries also deter FDI (Henisz 2000; Jenkins & Thomas 2002). Also, Cyrysostome et al. (2011) argued that some African countries have very restrictive regulations concerning earning remittance of for-

oreign companies which discourage MNE's in conducting business in the region. According to Montial (2006), other economic constraints that deter FDI inflows to African include: barriers to information flow and lack of transparency, which reduce FDI attractiveness.

Ghana has long been regarded as one of sub-Saharan Africa's "star performers" (Coulombe & Wodon 2007). It was one of the earliest African economic reformers, with a series of reforms beginning in 1983. These reforms included the abolition of price controls, the opening of capital markets, reductions in import tariffs, and privatization of many state-owned enterprises (Sandefur 2010). Ghana has implemented policies designed to accelerate the process of growth and transformation of the economy under competitive conditions. The Government of Ghana has put in place incentives to encourage the inflow of foreign investment (Amoako-Gyampah & Acquah 2008). They include tax holidays in all sectors of the economy to ensure that the country becomes the gateway to the West African market of 250 million consumers. In addition, under the on-going privatization programme, 100% foreign ownership is permitted. According to Amoako-Gyampah and Acquah (2008), the new economic policies have changed the business environment of manufacturing companies by reducing hurdles while, at the same time, increasing competition. Thus, foreign manufacturing subsidiaries face a more promising but competitive environment that demands improved strength of market-orientation and competitive capabilities.

As a result of these reforms Ghana exhibited strong and sustained growth, with a growth rate of 7.7 per cent in 2010 (UNCTAD 2011). In 2011, the Ghanaian economy had the fastest rate of growth in Sub-Saharan Africa, with a growth rate of 13.4 per cent (UNCTAD 2011). FDI rose from about USD 20 million in 1990 to around USD 200 million at the end of the decade. Since then it has risen to about USD 2.5 billion in 2010 (www.unctad.org/fdistatistics; UNCTAD 2011). The country is considered to be one of the best investment locations in West Africa (UNCTAD, 2011), and plays a major role in the Economic Community of West African States (ECOWAS). In 2010, Ghana was ranked the 7th largest recipient of foreign direct investments (FDIs) and the 4th safest FDI destination country in Africa (UNCTAD 2011).

Table 1 shows the trends of economic indicators in Ghana's economy since 1995. With the discovery and exploration of oil in Ghana, there is an increased potential for future growth. Ghana, thus, exemplifies the group of African economies that are growing fast due to improved economic management and increased natural resource exports. In spite of historically low rates of FDI, they are recently becoming more interesting to foreign investors. Some authorities project that an

African country like Ghana will become the new frontier of global investment and development within the next decade. Thus, we need to better understand issues of FDI in an African context

Table 1. Macroeconomic indicators for Ghana

Year	1995	2000	2005	2006	2007	2008	2009	2010
Population (millions)	16.23	19.53	21,02	22.409	22.93	23,38	23.83	24.39
GDP PPP (US\$ bn)(C)	18.9	26.1	41.9	45.2	49.6	54.9	59.3	64.6
GDP Per capital PPP (US\$) (C)	1,168	1,418	2,007	2,113	2,258	2,439	2,556	2,725
Real GDP Growth (% change)	4.0	3.7	5.8	6.4	6.3	8.4	4.7	7.7
Current account balance (%GDP)	-1.878	-5.347	-5.143	-6.199	-7.956	-10.795	- 4.7	-7.0
Inflation (% Change)	70.8	40.5	14.8	10.9	12.7	18.1	19.3	10.7
Country risk	49	44.94	36.68	40.96				

Source: World development indicators and euromoney databases

Ghana's manufacturing industry expanded after independence in 1957 when the government launched an industrialization drive. It resulted in the creation of a range of industrial enterprises including aluminum processing, oil refining, timber processing, cocoa processing, breweries, cement manufacturing, and textile manufacturing. As a result, the manufacturing industry's share of GDP grew from 10% in 1960 to 14% in 1970. After 1970, harsh external economic conditions, economic mis-management, and shortage of resources made it difficult for manufacturers to stay afloat, ultimately leading to a decline through the 70's and 80's. Recent liberalization of trade further added to the difficulties by flooding markets with cheap imports (mostly from China) with which local companies could not compete. As many as 120 manufacturing facilities have closed their doors since the liberalization of trade eliminated many jobs. Since the late 1980s, the Government has attempted to support the manufacturing sector through various financial incentives to attract both local and foreign investors. Among some of the biggest manufacturing companies operating in Ghana are Unilever Ghana Ltd (consumer goods); Valco Aluminium (metals) and Ticor Chemicals Ghana Ltd (industrial chemicals) (see Appendix 6).

1.2 Research problem and research gap

There is an immense body of literature which has emerged on international entry mode research and has mostly taken place in the advanced world (e.g. Wilson,

1980; Caves & Mehra 1986; Forsgren 1989; Zejan 1990; Hennart & Park 1993; Andersson & Svensson 1994; Cho & Padmanabhan 1995; Hennart, Larimo & Chen 1996; Meyer & Estrin, 1997; Barkema & Vermeulen 1998; Padmanabhan & Cho 1999; Brouthers & Brouthers 2000; Harzing 2002; Larimo 2003; Chen & Zeng 2004). A growing number of studies have explored the entry modes of MNCs entering Central and Eastern Europe (e.g. Nakos & Brouthers 2002; Dikova & Witteloostuijn 2005, 2007) and Asia (e.g. Pan, Li & Tse 1999; Pan & Tse 2000). In addition, many studies have focused on the performance implications of entry modes examined from the perspective of the parent firm (e.g. Barkema & Vermeulen 1998; Brouthers & Brouthers 2000; Elango & Sambharya 2004; Harzing 2002; Hennart & Park 1993; Mudambi & Mudambi 2002). In spite of the abundant studies on motives, entry mode choices and performance, most of the studies have focused on FDIIs made in advanced and emerging economies.

There have only been a handful of studies of this nature made in the context of Africa – even at the macro level (see e.g. Bartels, Eicher, Bachtrung & Rezonja 2009; Asiedu 2002, 2006; Bende-Nabende 2002). Even though in recent years many of the underdeveloped countries in Africa have undergone radical changes in their institutional environment with the aim of attracting foreign investment, very little research has been carried out to examine FDI strategies and the performance of foreign MNEs investing in Sub-Saharan Africa. These studies have identified a number of factors which attract FDI into the continent but there is scant empirical research on motives, entry modes and subsequent performance of FDI in the continent. While motives for FDI in general have been extensively discussed in the literature, very few empirical studies have been made in Sub-Saharan Africa on motives (e.g. Boateng & Glaister 2003). Regarding establishment modes, Bhaumik et al. (2005), and for the performance (e.g. Boateng & Glaister 2002; Chrysostome & Lupton 2011) are a few of the few studies that have been undertaken in Africa. Despite these and other studies, Owusu and Habiyakare (2011), Burgess and Steenkamp (2006), Hoskisson et al. (2000), and Nwankwo (2000), among others, state that the academic literature on business in Africa is limited, and they call for more studies. Hence, there is the need for more research to shed light on the extent of the behaviour of FDI and performance of subsidiaries in an African context.

In order to find out what has been done in the region, I have based my research on the articles published in journals found in databases available from the library of the University of Vaasa. This encompasses almost all the peer-reviewed business and management journals in the world. The database is made of twelve major international e-journal databases and it includes ABI Inform Global, Emerald, Science Direct, ESBCO, SAGE Journals Online (Sage Premier), JSTOR Arts &

Sciences etc. The keywords used for the search are “entry mode choices”, “motives”, “establishment modes”, “ownership choice”, “FDI performance”, “Africa”, Ghana. This search yielded papers mostly addressing macro-economic determinants of FDI to Africa, which is not the main purpose of the present dissertation. Of the few relevant studies I found, one is on motives, one on establishment modes, and three on performance. For the lists of these relevant few studies (see Table 2). Also, I went through each number of the available international peer-reviewed journals on business in Africa: *Journal of African Business*, *Africa Journal of Business Management*, *South African Journal of Business Management*, and *African Journal of Business and Economics* to identify other articles which are relevant to this dissertation.

Table 2. Summary of the earlier empirical studies of FDI in Africa

Authors	Level of analysis	Goals of the studies	Size of sample	Origin of the firms	Time period	Methodology
Agodo (1978)	20 African countries	Determinants of US FDI in 20 African countries	33	USA	1960-1970	Multiple regression analysis
Morisset (2000)	29 Africa countries	Investigate which policy factors have played a significant role in the improvement of their investment climate Sub-Saharan Africa.	-	Foreign firms	1990-97	Panel data analysis
Lemi & Asefa (2003)	26 Africa countries	Examines how uncertainty affects FDI flows to African	-	U.S manufacturing and non-manufacturing firms	1987-1999	Regression analysis
Boateng and Glaister (2002)	Ghana and Nigeria	Examination of performance of international joint venture in West Africa	57	West Europeans, North America and Asia	1986-1997	Multivariate analysis
Astedu (2002)	71 developing countries (Asia Vs. Africa Vs. Latin America)	Examine factors that drive FDI to developing countries	-	US	1988-1997	Panel data analysis
Boateng & Glaister (2003)	Ghana	Exam strategic motive for international venture formation in Ghana	47	Western Europeans, North America and Asia	1986-1997	Factor analysis
Yasin (2005)	11 SSA countries	Explore the link between the two major sources of external capital to fill Africa's significant gap (FDI and ODA)	-	Foreign firms	1990-2003	Panel data analysis
Bhaumik & Gleb (2005)	South Africa and Egypt	Examination of entry mode between greenfield and acquisition of manufacturing and services firms	224	Foreign firms	1990-2000	Regression analysis
Astedu (2006)	22 countries	Empirically examines the impact of Natural resource endowment, macroeconomic instability, FDI regulatory framework, corruption, effectiveness of the legal system and political instability on FDI flows	-	Foreign firms	1984-2000	Panel data analysis
Cleeve (2008)	16 countries	Factors attracting FDI: Tax incentives, market size, infrastructure and skill of labour	-	Foreign firms	1990-2000	Time series analysis
Wahid et al (2009)	20 countries	Natural resources, political stability, labour cost and market size	-	Foreign firms	1990-2005	Panel data analysis
Bartels et. al (2009)	10 SSA countries	Motivating Factors attracting FDI into Sub-Sahara Africa	758	Foreign firms	-	Factor analysis
Kyereboah-Coleman et al. (2008)	Ghana	To examine the effect of real exchange rate volatility on foreign direct investment (FDI) in a small and developing country such as Ghana.	-	Foreign firms	1970-2002	Time series analysis
Chrysostom et al (2011)	Africa	Exam characteristics and performance of Japanese FDI in Africa	1062	Japan	-	Cross tabulation analysis

1.3 The objectives and justifications of the study

The main purpose of the study is to increase our understanding of the behaviour of manufacturing FDI in Ghana. To this end, the research question of this study is:

What factors motivate and influence the FDI choices of MNEs with regard to motives, establishment mode and ownership mode, and how do they impact on subsidiary performance in the context of Ghana?

In order to achieve the overall objectives, this dissertation has both theoretical and empirical sub-objectives. They are:

1. To integrate two theoretical streams of the literature on international business drawn from the eclectic paradigm and transaction cost theory in order to address FDI strategies and performance.
2. To develop and test a model based on this theoretical framework in the context of Ghana.
3. To empirically analyse how ownership-specific location-specific, internalization, and transaction cost specific factors have influenced the FDI motives, establishment and ownership mode strategies of foreign firms in Ghana.
4. To empirically analyse how ownership factors, location factors, and strategies of MNEs have influenced the performance of foreign subsidiary firms in Ghana.
5. To empirically analyse the interaction effects of ownership and location factors, as well as the combined effect of establishment and ownership mode choices and their impacts on the performance of foreign subsidiary firms in Ghana.

As described in the introduction, Ghana's economy has performed relatively well in the last fifteen years. The 2010 Global Competitiveness Report ranked Ghana as one of the best performers in Sub-Saharan Africa in terms of economic reforms towards providing a favourable investment environment for business development. Therefore, Ghana represents an excellent case to study the phenomenon of MNCs strategic decisions and subsidiary performance in Sub-Saharan Africa. This study focuses on foreign manufacturing firms that have invested in Ghana, where the domestic market conditions are different from that of the advanced countries which have been the domain of past research. Research on FDI in Afri-

can countries is scanty and several researchers call for increased research (Owusu & Habiyakare 2011; Burgess & Steenkamp 2006; Hoskisson et al. 2000; Nwankwo2000). Thus, this study has the potential to generate a better understanding of the internationalization of foreign companies in Africa.

Specifically this study will provide both theoretical and managerial insights into the strategic motivations, establishment and ownership mode choices, as well as the performance of FDI in Africa. This dissertation contributes to the literature on foreign direct investments in the context of sub-Saharan Africa. By examining manufacturing FDI made by MNEs in Ghana. This study should increase knowledge of the behaviour and strategies of FDI in African countries. In addition, this study provides a rich and comprehensive understanding of the importance of each of the ownership-specific, location-specific and internalization and transactions cost factors, and how they influence motives, establishment mode, ownership mode and the subsidiary's performance of foreign firms in Ghana.

Furthermore, this study provides an understanding of whether ownership-specific, location-specific and internalization and transaction cost factors should, or should not, be considered in isolation, with respect to their strategic impact upon a firm's global strategic aims. Managerially, identifying ownership-specific, location-specific, internalization and transaction cost factors influencing the FDI choices can serve as a guide for policy-makers in designing appropriate FDI policies to attract investments. In pursuing vigorous policies towards attracting foreign investment, policy makers need to understand the importance of conditions influencing the flow of FDI from the home country into a foreign country. In addition, the results of this study would help managers to identify the key factors that should be taken into consideration when making strategic decisions concerning motives, establishment modes and ownership modes that are appropriate when making FDI decisions in Sub-Sahara Africa. Finally, this study provides a logical step towards examining the motives, establishment mode, ownership mode and the performance of FDI that could be replicated in other settings. As FDI continues to grow, this method could prove to be useful in examining the motives, establishment mode, ownership and performance of foreign firms in other countries in Africa or other regions in the world.

In order to answer the research questions, this study uses quantitative methodology because of its advantages when trying to understand the relationship between independent and dependent variables, develop hypotheses, and test them (Cresswell, 2003). Quantitative research has its roots in positivism and is concerned with carrying out investigations in such a way that statistical results can be

reached. Quantitative research aims at reducing or eliminating biases to the extent that hypotheses can be accepted or rejected, levels of significance can be established for their acceptance or rejection, and the results can be generalized to better extent than qualitative research. Thus, quantitative methodology is most suitable to answer the research questions of this study by providing statistical analyses of available data. Quantitative research builds on previous knowledge and theories in order to answer the research questions (Patel & Davidsson 2003). In this study the approach is used to identify factors that influence the FDI strategies and performance of manufacturing FDI in Ghana. This study is based on the five sequential stages proposed by Robson (2002) to conduct scientific research: deducing hypotheses; expressing the hypotheses in operational terms; testing these operational hypotheses; analyzing the results; and confirming or /modifying the theories in accordance with the findings. The theoretical framework is built on the eclectic paradigm and transaction cost theory. Hypotheses are developed from aspects of the extant literature that are relevant to FDI behavior in the areas of motives, establishment mode, ownership mode, and performance. The data analysis used a binomial logistic method to analyze the data and test hypotheses relating to motives, establishment and ownership choice, because the dependent variables are dichotomous or discrete. Ordinary least square was used to analyze the data and test hypotheses relating to performance because variables are categorical variable.

1.4 Definitions of the main concepts of the study

The main concepts in this study have been identified based on their importance in understanding the research phenomenon under study. These terms include foreign direct investment, motives, establishment mode choice, ownership mode choice, acquisition, greenfield investment, wholly owned subsidiary, joint venture and performance. The definitions of main terms used in this dissertation are summarized and presented in Table 1 together with the related references, so that the reader can follow the conceptualization of these terms in this dissertation.

Table 3. Definitions of the main concepts of the study

Key Terms	Definitions	References
Foreign Direct Investment	FDI defines as investments “out of the home country of the investing company, but inside the investing company”. He also emphasizes that FDI consists of a “package of assets and intermediate products, such as capital, technology, management skills, access to markets, and entrepreneurship”.	Dunning (1993:5)
Motives	FDI literature identifies three most common investment motivations: resource- seeking, market-seeking and efficiency-seeking, and strategic asset seeking.	Adapted from Dunning, (1993).
Market-seeking (MS)	Market-seeking FDIs are undertaken to sustain or protect existing markets or to exploit or promote new markets. Market-seeking firms generally choose those locations that are most promising to achieve actual and future growth goals.	Adapted from Dunning (1993)
Resource-seeking (RS)	Resource-seeking firms naturally aim to access specific resources in the host country at lower cost levels than they achieve at present in their home countries	Adapted from Galan, González-Benito, & Zuniga-Vincente, 2007); Dunning (1993)
Efficiency-seeking (ES)	Efficiency-seeking projects are undertaken in order to rationalize the structure of established production units in such a way that a firm can gain from the common governance of interrelated activities in different locations	Adapted from Dunning (1993).
Establishment mode choice	The trade-off between start-up(greenfield investment) or acquiring existing firms (acquisition) when MNE enters a new market	Adapted from Chen, (2008)
Acquisition	Purchasing part or all of the equity of an existing firm. This implies that acquisitions can be partially or wholly owned as well.	Adapted from Cho & Padmanabhan (1995)
Greenfield	Startup investment from scratch (operations and human resources) in a new host market	Adapted from Larimo (2003);
Ownership mode choice	The choice between wholly owned subsidiary and joint venture when MNE enters a new market through equity	Adapted from Anderson & Gatignon (1986);
Wholly Owned Subsidiary (WOS)	This form of market entry provides a company with full control over its foreign operations. This method of market entry requires large capital investment, commitment of time and effort, and normally a willingness of some employees or management to travel to and live in a foreign country	Adapted from Kogut & Singh (1988); Jun et al. (2008)
Joint Venture (JV)	Joint venture is a cooperative operation formed by two or more independent entities from different countries to achieve common or complementary objectives. Joint venture partners may be privately owned companies government agencies, or government-owned firms.	Adapted from Kogut & Singh 1988). Anderson & Gatignon (1986)
Performance	Performance is a measure of the outcomes of investments, specifically captured as the total performance outcomes and profitability of the investment over time.	Adapted from Fey & Beamish (2001)

1.5 Structure of the study

Chapter 1 gives the introduction and outlines the background, research problem and research gap, research questions and objectives, justification and contributions of the study. The structure of the study is presented in Figure 1.

Chapter 2 a review of eclectic paradigm and transaction cost theory explaining the growth of the firm and foreign value-added activities they own or control. It can be said that due to the diversity of the theoretical explanations, there is no unanimously accepted FDI theory. However, all these theories share one common feature – nearly all of them are related to outward foreign direct investment. This chapter ends with argumentation for choosing these two theories and their shortcomings as the framework of this study.

Chapter 3 presents the four main strategic motives for investment. By identifying the strategic objectives underlying FDI projects, it becomes possible to analyze directly and explicitly the role of strategies in determining the propensity of the firms to undertake FDI projects. The chapter concentrates on the theoretical and empirical literature on the motivational strategies, and discusses the crucial ownership-specific, location-specific, internalization and transaction cost specific. It also presents the hypotheses measuring the FDI choices of foreign firms in Ghana. The chapter ends with some concluding remarks.

Chapter 4 presents the establishment mode, which is made up of acquisition and greenfield foreign manufacturing entries in Ghana. The chapter will examine factors foreign investors consider when entering the Ghanaian market. Theoretically, the analysis will investigate how the ownership-specific, location-specific, internalization specific and transaction cost could influence the decisions of foreign firms to a choice between greenfield and acquisitions in the context of the Ghanaian market. The chapter will detail out the hypotheses measuring the choice of greenfield and acquisition.

Chapter 5 presents the ownership mode, which is made up of JV and WOS. The chapter will look at factors foreign investors consider when choosing an ownership structure in the Ghanaian market. Theoretically, the analysis will investigate how the ownership-specific, location-specific, internalization specific and transaction cost could influence the decisions of foreign investing firms to establish a joint or wholly owned venture in Ghana. The chapter will detail the hypotheses measuring the choice between the joint venture and wholly owned subsidiary

Chapter 6 this chapter examines the impact of ownership specific factors, location specific factors, establishment and ownership modes and its impact on the

performance of foreign investing firms in Ghana. Theoretically, the analysis will investigate how the ownership-specific, location-specific, establishment modes and ownership choices will affect the performance of foreign investing firms in Ghana. The chapter will detail the hypotheses measuring the impact of these factors on subsidiary performance in Ghana.

Chapter 7 provides a bridge between the objectives, theoretical and empirical setting related to the FDI of the foreign manufacturing firms in Ghana. In this chapter research methodology and the sample and characteristics of the participating firms are discussed. It also provides an overview of the statistical procedure used and operationalization of the dependent, independent and control variables related to motives, establishment modes, ownership modes and performance of foreign firms in Ghana.

Chapter 8 provides the results of the study. The first part of this chapter deal with the testing of hypotheses and the model related to the motivational aspect of the foreign firms in Ghana. The second part of this chapter deals with the hypotheses and model related to the establishment modes of the foreign firm in Ghana. The third part of this chapter deals with the hypotheses and model related to the ownership choices of the foreign firm in Ghana. The fourth part of this chapter deals with the hypotheses and model related to the overall performance and profitability of the foreign firm in Ghana.

Chapter 9 discusses the contributions and implications of this study. The first subchapter provides a summary of the previous chapters of the present study. The second subchapter reviews the theoretical contribution and managerial implications of this research. Finally, the thesis ends with limitations and suggestions for future research.

T H E O R E T I C A L P A R T	Chapter 1	INTRODUCTION <ul style="list-style-type: none"> • Background • The research problem and gap • The research questions and objectives of the study • Justification and contribution of the study • Structure of the study
	Chapter 2	FDI THEORIES <ul style="list-style-type: none"> • Review of two theories, strength and weakness of the theories • Eclectic paradigm • Ownership specific factors • Location specific factors • Internalization specific factor • transaction cost • Summary
	Chapter 3	STRATEGIC MOTIVES OF FDI <ul style="list-style-type: none"> • Review of strategies motives of FDI • Market seeking FDI • Resource seeking FDI • Efficiency seeking FDI • Knowledge seeking FDI • Determinants of motives of foreign firms in Ghana • Literature review and development of hypotheses • Summary
	Chapter 4	ESTABLISHMENT MODE <ul style="list-style-type: none"> • Review of establishment mode strategies of investing firms • Background literature and development of hypothesis • ownership specific factors and establishment mode • Location specific factors and establishment mode • Internalization and transaction cost specific factor and establishment mode • Summary
	Chapter 5	OWNERSHIP MODE <ul style="list-style-type: none"> • Review of ownership mode strategies of investing firms • Background literature and development of hypothesis • Ownership specific factors and ownership mode • Location specific factors and ownership mode • Internalization specific factors and ownership mode • Summary
	Chapter 6	PERFORMANCE OF FOREIGN MANUFACTURING UNITS <ul style="list-style-type: none"> • Review of the impact of ownership and location specific, entry modes on performance • Ownership specific factors and its effect on performance • Location specific factor and its effect on performance • Establishment mode and its effect on performance • Ownership mode and its effects on performance • Summary • Research model
E M P I R I C A L P A R T	Chapter 7	METHODOLOGY AND THE SAMPLE <ul style="list-style-type: none"> • The sample • The methodology of the study • Operationalization of the variables • Data analysis
	Chapter 8	EMPIRICAL FINDINGS: <ul style="list-style-type: none"> • Empirically testing of hypotheses • Empirical result related to motives aspect • Empirical result related to establishment mode • Empirical result related to ownership mode • Empirical result related to performance • Summary
	Chapter 9	DISCUSSION AND CONCLUSIONS <ul style="list-style-type: none"> • Summary and Findings of the study • Theoretical and managerial implications • Limitations • Suggestions for future research

Figure 1. The structure of the present study

2 THEORETICAL BACKGROUND

This chapter reviews the literature on two foreign direct investment theories and explanations of the growth of the multinational firms. This chapter attempts to discuss the strength and weaknesses of eclectic and transaction cost theories. There is a large diversity of theoretical explanations of international production and there is no unanimously accepted FDI theory. However, all these theories share one common feature: all of them are primarily related to outward foreign investment. Rather, the use of particular paradigms and theories often reflect the issues addressed and questions asked. For this study, two theories of international production have been selected, and these are eclectic paradigm and transaction cost as a basis of analysis. The chapter ends with the summary and arguments for choosing an eclectic theory and transaction cost as the framework of the study.

2.1 The eclectic paradigm

The Eclectic paradigm, also called OLI theory, is one of the main frameworks used to explain and examine the foreign direct investment (FDI) decisions of multinational firms over the past two decades (Zhao & Decker 2004). The eclectic theory is an attempt to incorporate several theories of entry mode choice into a unified framework (Goodnow 1985). In response to several partial theories concerning the ownership and location of international production, taking into account only one or a few market imperfections respectively, the eclectic paradigm was developed by Dunning (1977). Since then, it has been refined and developed in Dunning (1981; 1988; 1993a; 1995, 2001, 2004), as well as in Gray (1996). The intention of the OLI paradigm was to “offer a holistic framework by which it was possible to identify and evaluate the significant factors influencing both the initial act of foreign production by enterprises and the growth of such production” (Dunning 1988). The OLI paradigm asserts that a firm's foreign activity depends upon the possession or creation of ownership-specific advantages, which it is beneficial to internalise in a foreign country offering location-specific advantages. Changes in a firm's foreign activity are then determined by changes in its OLI configuration and in its long-term management strategy. It is ‘the precise configuration of the ownership, location and internalization (OLI) advantages (and disadvantages) facing firms, and their strategic reaction to them, that will determine, *at any given moment of time*, the nature, level, and structure of MNE activity’ (Dunning 1993).

Dunning's eclectic framework of international production suggests that firms make their FDI choices by considering three sets of advantages: ownership-

specific advantages (which are concerned with the control issue, the costs and benefits (risk) of inter-firm relationships and transactions), Location-specific advantages (which are resources in a particular location) and Internalization advantages (which are primarily concerned with reducing transaction and coordination costs (Dunning 1993, 1998, 2004; Cantwell & Narula 2001). These three sets of advantages influence a firm's FDI behaviour by affecting the management perception of asset power (ownership-specific advantage), market attractiveness (location-specific advantages), and cost of integration (internalization advantages) (Agarwal & Ramaswami 1992).

2.1.1 *Ownership-specific advantages*

The extent to which firms have the ability to engage in foreign production depends upon the possession of, or the ability to acquire, ownership-specific advantages in more favourable terms vis-a-vis firms of other nationalities: in particular, market it serves. The OLI framework distinguishes between asset advantages (Oa) and transaction cost minimising advantages (Ot). Asset advantages arise from the access to, or privileged possession of, certain income-generating assets. In empirical studies, a number of tangible and intangible asset O advantages have been identified. The Oa advantages most commonly evaluated is the possession of firm-specific technology, patents, management knowledge, manpower, capital and product differentiation through brand names or advertising (Tan & Vertinsky 1996; Dunning 1980; Denekamp, 1995). The Oa advantages are based upon the presence of endogenous (or structural) market failures and are similar to the monopolistic advantages that are reckoned to provide the firm possessing them with the ability to beneficially engage in foreign production and generate monopoly rent. The Ot advantages represent the ability of firms to capture transactional benefits from the common governance of interrelated assets located in different countries. These transactional benefits are associated with the advantages of organising Oa advantages with complementary assets: that is, with the Ot advantages. The Ot advantages arise from a firm's ability to 'co-ordinate multiple and geographically dispersed valued added activities and to capture the gains of risk diversification' (Dunning 1993a:80). The Ot advantages increase the propensity to undertake new FDI project, but they also have implications for a firm's ability to protect its Oa advantages from deterioration. They have as well implications for the ability of a firm to exploit its Oa advantages efficiently within the organisation (Gray 1996). Ot advantages derive mainly from firm size, product diversity, learning experience and synergistic economies in production, purchasing, marketing, research and development, finance and transportation.

These Ot advantages are thus related to the benefits of economies of scale and scope and to those of specialization in differentiated products (Dunning 1993). Ot advantages also derive from the degree of multinational *per se* of a firm. By operating in multiple markets, firms increase their operational (production) flexibility, their opportunities to take advantage of geographical differences in factor endowments, and their ability to reduce or diversify risks (Dunning 1993). These Ot advantages arise as a direct consequence of foreign production but may subsequently put a firm in a more favourable position for further international activity. Contrary to the transaction cost theory, which assumes that these advantages are derived from internalization, the OLI paradigm claims that these advantages both precede and follow foreign production (Dunning 1997:485). The relative importance given to the different O advantages in explaining the ownership of international production has changed substantially throughout the years (Dunning 1993; Gray 1996). The source O advantage for well-established MNEs has increasingly become their portfolio of globally coordinated ownership and locational assets, that is, their Ot advantages of being multinational.

Furthermore, the motivation given to FDI has changed from primarily being designed to exploit existing O advantages in countries providing a firm with L advantages to being designed to generate new O advantages (Gray 1996). New O advantages can be externally generated by acquiring a domestic or foreign company: that is, by adding resources that may give additional O advantages vis-a-vis competitors (Dunning 1993:80). The notion that internalization *per se* is capable of generating O advantages implies that firms do not internalise merely to capitalize upon their present O advantages. Recognising that internalization can be the means through which new O advantages are created or acquired constitutes a significant departure from a static treatment of MNE activity.

2.1.2 *Location-specific advantages*

The second strand of the eclectic paradigm is concerned with the location. Location-specific advantages refer to a number of factors that favour a particular location vis-a-vis the alternatives in such a way that they affect the propensity of a firm to engage in foreign production and determine the location of that activity. Location-specific advantages are related to various characteristics in economic, cultural, legal, political and/or institutional environments across locations and affect the costs and/or revenues by producing in different locations (Dunning 1988). The common denominator among the locational advantages is that they influence (i) the expected profitability of foreign production in relation to export and (ii) the expected profitability of having production located in different coun-

tries (Liansheng 1993; Thomsen & Nicolaidis 1991; Kimura 1989). Location-specific advantages may then favour either the home country or a particular foreign country as a location for production (Liansheng 1993:48), and a firm holding O advantages 'may decide to internalize them, and put them to use in foreign locations when it finds that they can be utilized more profitably in these locations' (Kimura 1989:299).

Earlier studies have identified a number of L advantages that have had a significant effect on the propensity of firms to engage in foreign production and on the location of that activity. The most commonly evaluated locational advantages include market size and growth, factor endowments, sources of supply, transportation costs, trade barriers and physical distance (Caves 1996; Pugel 1982). Hence, L advantages include not only factor endowments but also a number of locational advantages derived from spatial (or structural) market failures, such as restrictions on trade, and from transactional market failures (Dunning 1988). The location decision has actually become "less based on the comparative advantages of factor endowments, and more on the strategies of competitors of supplying regional or global markets, the desire to fully exploits the economies of large-scale production, the need to reduce market instability and uncertainty, and the incentive to reap the gains from integrating related activities over space" (Dunning 1988). The presence of spatial (or structural) market failures has implications for transfer costs across borders, such as where there are tariffs and non-tariff trade barriers (Dunning 1988) or exchange rate risks (Thomsen & Nicolaidis 1991), and may thereby create advantages for operating in a particular location (and disadvantages of operating in others). Similarly, the choice of location may also be prompted by a reduction in transportation costs and trade barriers, e.g. where there is a form of economic integration arrangements (Dunning, 1988).

Because high transfer costs create advantages associated with operating production units in particular locations, it follows that factors that in general discourage trade stimulate foreign production (Caves 1996; Thomsen & Nicolaidis 1991). Trade and foreign production however, are not always substitutes for each other. In fact, foreign production sometimes replaces trade, and sometimes it complements or changes the pattern of trade, such as where there is direct investment in product and process specialization in different countries (Dunning 1998). Despite the conceptual differences between L and O advantages, the choice of location is not independent of present O advantages or of the ability to acquire or generate new O advantages by establishing foreign production in different locations (Dunning 1988). There is a close linkage between O and L advantages (Sleuwaegen 1988). The investment firm may be stimulated to undertake FDI projects in particular locations in order to advance or protect its O advantages; and it may also

be stimulated to undertake foreign production in particular locations in order to generate new O advantages that are derived from operating in that location. The choice of location is also determined by the fact that the various location alternatives may have different subsequent effects on a firm's OLI configuration (Gray 1996). Kumar and Kim (1984) argue that it is the complex interaction between the ownership-specific and location-specific factors that sheds light on overseas direct investment.

The relationships between L and O advantages have implications for O advantages (Ekstöm 1998:41). Operating production resources in particular locations or in a particular configuration of locations significantly influences the O advantages associated with the common governance of activities in different locations (Dunning, 1988) These O advantages refer to the benefits associated with operating in multiple geographical and product markets, such as production flexibility, geographical diversification and firm-level economies of scale and scope: in other words, synergistic economies in distribution, marketing and purchasing (Dunning 1993). As the transactional market failures enabling firms to create these O advantages are, to a certain extent, country-specific, they have locational implications as well (Dunning 1988). The importance of the configuration of location advantages for a firm's O advantages emphasises the importance of its portfolio of locational advantages (Ekstöm 1998:41). Gray (1996) argued that recognising the importance of a portfolio of locational assets means that changes in that portfolio will be undertaken if the portfolio becomes sub-optimal. Firms are then reasoned to undertake FDI projects if it will create a new portfolio of locational assets that is perceived as being better than the old one (Gray 1996).

2.1.3 Internalisation advantages

Internalization advantages arise when the potential rents to be realised from the O advantages are higher if they are transferred across borders within a firm's own organisation than if they are sold in the external market for O advantages (Dunning, 1993; Dunning, 1988). O and I advantages are thus closely interactive with each other (Denekamp 1995; Dunning & Kundu 1995). Besides the fact that firms are undertaking foreign production to internalise their O advantages in foreign markets, the process of internalizing may also generate new O advantages and increase the benefits of internalizing. These new O advantages may either be internally generated or acquired from other firms (Dunning 1993). The I advantage has an intermediate role in the OLI framework (Randoy 1994). They are intermediate in the sense that the advantages of internalizing foreign markets are determined by a firm's O advantages (Denekamp 1995). They are influenced by the O

advantages possessed prior to FDI as well as by those generated by undertaking an FDI project (Liansheng 1993). Since FDI has been increasing become the means by which new O advantages are created (Gray 1996), the benefits of internalization are increasingly derived from the O advantages that internalization might generate. Thus, the interplay between O advantages and I advantages have become more dynamic. Firms internalize markets in order to acquire Oa advantages or to develop or enhance Ot advantages through the co-ordination of geographically dispersed activities (Gray 1996). The I advantage is also intermediate in the sense that it is influenced by the expected profitability of operating production units in a particular location (Dunning 1980).

Firms utilise foreign production whenever the transaction costs of using the market for exchange products across the border (or to sell or license their O advantages) exceed the costs of co-coordinating the production and exchange of these products within the same hierarchy (Dunning & Kundu 1995). Thus, the need to reduce buyer, supplier and governmental uncertainty, the need to protect the quality of production, the need to possess a high level of control and increasingly, the need to capture economies of independent activities speak in favour of hierarchies and induce firms to undertake foreign production rather than other servicing modes (Dunning 1993). According to the OLI framework, by internalizing, a firm utilises or circumvents the existence of transactional market failures in order to economize on transaction costs and to capitalize more fully on its O advantages. According to the internalization theory, on the other hand, firms internalize the market in order to economize on transaction costs, which, in turn, generate advantages over other firms (Itaki 1991). The difference between the eclectic theory perspective on internalization and the internalization theory is essentially in their focus on the transactional market failures as either exogenous or endogenous (Liansheng 1992). In the eclectic paradigm, firms internalise to circumvent or utilise market failures, but they also internalise to capitalize on the O advantages through the internal creation of market failures based on those advantages. In the internalization theory, market failures are entirely exogenous.

2.1.4 *Criticism of the eclectic paradigm*

Although the eclectic paradigm ultimately deals with strategic decisions its 'rationalist' orientation tends to make it deterministic in its approach, hence there is a criticism that there is a lack of latitude for managerial discretion in the decisions it is modelling (Johanson & Vahlne 1990). They have been criticized because managerial beliefs and actions occupy a prominent position in strategic thinking as they provide a means through which organizations respond and maintain ana-

alignment with shifting market, technological and socio-political environments (Rajagopalan 1996). Numerous findings (e.g. Barr 1992; Lant et al. 1992; Smith Child & Rowlinson 1991; Webb & Dawson 1991) show that managerial interpretations of organizational conditions directly influence the need for strategic change. Indeed, the basic statements found in support of the eclectic paradigm indicate that just such logic is assumed to exist; otherwise, managers would not be able to make optimal decisions regarding the right investment alternatives. However, the role of managers is downplayed and this is most evident when comparing the eclectic paradigm with the Uppsala internationalization model (Johanson & Vahlne 1990). Furthermore, it has been suggested that it is misleading to suggest that the triad of variables which make up the eclectic paradigm is independent of one another. For example, a firm's response to its exogenous locational variables might itself influence its ownership advantages, including its ability and willingness to internalize the market. A particular R&D strategy, intended to strengthen a firm's competitive position, may require a reappraisal of the siting of its existing inventory facilities; while a change in firm's organisational structure may directly affect its ability to penetrate the markets of its competitors. Over time, the separate identity of variables becomes even more difficult to justify. Finally, as Dunning's paradigm consists of building blocks from other theories and models as described in the last chapter this is due to the fact that an empirical verification of the paradigm has been considered impossible. In effect, this is the first criticism which the paradigm has faced, as it imposes several operational/empirical limitations due to the complexity of the variables used in the paradigm (Melin 1992; Borsos-Torstila 1999).

2.2 Transaction cost theory

The transaction cost theory of entry mode choice was originated by Williamson (1975). Among the first to apply the TC theory to analyze entry mode choice were Anderson and Gatignon (1986). Most studies in this framework work have followed the original framework and include the work of Anderson and Gatignon (1988), Anderson and Coughlan (1987), Hennart (1988, 1989), Erramilli and Rao (1993). Transaction cost theory has been widely used in entry mode research to explain why large companies utilize different modes in expanding abroad (Brouthers & Brouthers 2003; Delios & Beamish 1999; Erramilli & Rao 1993; Hennart 1991; Gatignon & Anderson 1988; Anderson & Gatignon 1986). Williamson (1985) argued that companies adopt a certain organizational market structure (non-equity modes) versus hierarchies (equity modes) when expanding abroad based on how efficient one structure is compared with the alternative structure. The transaction cost theory is one of the dominant theories used to ex-

plain an MNE's establishment mode choice, and is the core international business theory propounded by Buckley and Casson (1976). The transactional cost analysis is the most widely applied theoretical perspective in international entry mode research (Canabal & White 2008; Brouthers & Hennart 2007). It essentially argues that firms choose an entry mode that minimizes the transaction costs associated with their international operations.

In other words, managers make a choice between equity and non-equity modes of entry by comparing the costs of internal coordination and control to those associated with finding, negotiating with and monitoring an intermediary in an external market (Kim & Gray 2008). Williamson (1985) proposed that transaction cost occurs when a product is transferred across sequential stages of a production process under alternative governance structures. The most critical dimension is asset specificity. Transaction cost economies maintain that cost occurs due to the combined ramification of the latter coupled with bounded rationality and opportunism. Williamson (1987) refers to the world of governance, in which firms seek to organize transactions so as to economize on bounded rationality while simultaneously safeguarding them against the hazards of opportunism. The other factors affect the nature of these transactions; namely, uncertainties related to completion of the contract and the frequency of these transactions. Hence, incentives for other operation modes than FDI through vertical integration become weaker as transactions become progressively more idiosyncratic due to the less transferable nature of both human and physical assets, which become more specialized to a single use (Williamson 1987).

This theory focuses on individual economic exchanges (Schaefer 2002). Transaction costs are composed of the costs of finding and negotiating with an appropriate partner, and the costs of monitoring the performance of the partner. In the transaction cost theory of foreign direct investment (FDI), the essence is the cross-border expansion of business. This expansion is based on the ideas that locating facilities abroad are more efficient than exporting to the country from the parent company and that the company finds it desirable to invest in that foreign country (Hennart & Park 1993). Research shows that transaction costs play a very important role in the finding of an efficient and successful market entry mode (Hennart & Park 1993). Furthermore, they have found that when transaction costs are low, firms tend to rely on the market to deliver required target market benefits. As the costs increase, they tend to switch to more hierarchical modes, e.g. wholly owned subsidiaries. A transaction cost asserts that the transaction is the basic unit of economic activity, where a transaction may be said to occur when a good or service is traded across a technological separable interface (Williamson 1993). A transaction cost argues that transactions have distinct characteristics

that, in combination with the attributes of alternate governance structures, produce different production and transaction costs. The core dimensions of these transactions are the asset specifics, the frequency of economic exchange, and uncertainty surrounding the exchange of resources between the focal parties (Ander- sen 1997).

2.2.1 *Asset specificity*

This refers to the degree to which the investments necessary for a transaction are specific to that particular transaction (Williamson 1981). It also refers to the physical and human resources that a company uses to complete a specific task that may lose value in another use (Williamson 1985; Williamson & Ouchi 1981). A foreign firm that possesses the unique technology and know-how has to take extra precautions in order to protect its differentiated assets from falling into the hands of competitors. Williamson (1985) argued that a transaction that requires more asset-specific investment will be structured through hierarchies so as to reduce the transaction costs associated with opportunism. This is because if the transaction fails, the investments would be less valuable in some second best use (Williamson, 1986). Williamson (1985) suggests that opportunism is the natural seeking of self-interest of the individuals. Furthermore, Williamson and Ouchi (1981) argue that if opportunism did not exist, the markets could handle most transactions, and the need for hierarchical organizations and complex contracting disappears. Moreover, Hennart (1989) argues that it is because of market failure to operate efficiently and to discourage opportunistic behaviour that forces companies to internalize their transactions in order to avoid the costs of finding, negotiating and monitoring the activities of an external party. Previous studies (e.g. Brouthers & Brouthers 2003; Delios & Beamish 1999; Erramilli & Rao 1993), tend to show that firms prefer equity modes of entry when making high-asset specific investments. As a result, a firm with higher levels of asset specificity will prefer to organize production internally instead of market governance.

2.2.2 *Uncertainty*

Rindfleisch and Heide (1997) argued that second transaction characteristic uncertainty can come from different sources, most notably environmental variability and behavioural uncertainty. Environmental uncertainty, such as technological uncertainty, deals with the difficulty to foresee and anticipate changes in the relevant environment (Rindfleisch & Heide 1997). Williamson (1979) argued that when faced with high environmental uncertainty, writing complete contracts is difficult, and as unforeseen events emerge, contractual gaps might appear and

require renegotiating and adaptation. Contract adaptation and re-negotiations are a costly process and will increase transaction costs. As to behavioural uncertainty, it is based on the threat of opportunism and refers to the difficulty of monitoring and evaluating the behaviour and performance of the transaction partner. Whereas environmental uncertainty makes it impossible to specify contracts *ex ante*, behavioural uncertainty refers to the difficulty to verify the performance of the transaction partner *ex post* (Steenkamp et al. 2006). Governance structures have a varying ability to cope with certain kinds of uncertainty. It is supposed that with higher levels of insecurity, firms tend to produce products and services internally.

2.2.3 *Frequency of transactions*

Finally, transaction cost economics asserts that the frequency of transactions influences both transaction and production costs. The first is the frequency of trade between specific trading partners. Baker, Gibbons, and Murphy (2002) argued that this is the repeated-game notion of frequency, the one appearing in the literature on relational contracting. In this sense, frequency and hierarchical governance are substitutes; with frequent interaction, the incentive to maintain a reputation for fair dealing may be sufficient to mitigate opportunism, even in the absence of contracts or vertical integration. Second, there is the frequency of trade among many trading partners: that is, the frequency with which a particular transaction occurs in the market, regardless of who is transacting. This is how frequency appears in *Economic Institutions of Capitalism* (e.g. Williamson's 1979:60–61). Williamson's point is to distinguish standard (i.e., frequently occurring) and nonstandard (i.e., idiosyncratic) transactions. *The cost of specialized (i.e., hierarchical) governance structures will be easier to recover for large transactions of a recurring kind. Hence the frequency of transactions is a relevant dimension. Where frequency is low but the needs for nuanced governance are great, the possibility of aggregating the demands of similar but independent transactions is suggested by (Williamson 1979:60).*

In other words, for given levels of asset specificity, the greater the volume of trade, the more likely the benefits of hierarchical governance exceeds the costs. Frequency, in this sense, thus increases the probability of hierarchy, rather than decreasing it as in the first case above. In a relatively stable environment, the choice among market, hybrid, and hierarchy depends primarily on asset specifics. With more frequent environmental disturbances, however, hybrid forms of organization become relatively unattractive, even at intermediate levels of asset specificity, because of the high cost of coordinating the necessary adaptations among multiple, independent partners.

2.2.4 *Criticism of the transaction cost theory*

Although transaction cost is very useful, it is not without its critics. It is important to recognise some possible weaknesses in the theory. The theory assumes that it is possible to neatly separate production and transaction costs, but in practice this is often not the case. More generally, it is often very difficult to measure transaction costs, even if they can be defined. Transaction costs assume that there are limits to the extent to which decision-makers can be rational (that is, it assumes bounded rationality). It still makes little allowance for the other factors that we know affect decision-making. For example, the profit maximising, cost minimising object is not considered to be problematic. In reality, we know that this is not the case. There are often conflicts of interest among managers, the interests of managers and shareholders may not be perfectly aligned, and so on. Consequently, power plays an important role in decision-making. Thirdly, reputation and trust are not considered. Transactions are treated as though they occur without any knowledge of previous transactions involving the parties concerned. However, we know that trust does develop between people as they do business with each other. We know that a reputation for trustworthiness is an important business asset that firms will often be reluctant to jeopardize. Therefore, the assumption that we cannot judge *ex-ante* what will be opportunistic is an oversimplification.

Finally, transaction cost theory has been criticized for the fact that psychic distance influence and institutional backgrounds are absent in the discussion of entry mode decisions. This is mainly due to the difficulties in understanding that social and cultural factors are only a part of the so-called transaction atmosphere and that interaction effects between socio-cultural and transaction costs factors can't be determined in this simplified model (Schaefer 2002). It has also been criticized for being unable to explain the evolution of entry modes (Lu 2002) because it just offers a static view of organizational activities characterized by the absence of adequate social bonds. In addition to these facts, recent scholars have begun extending transaction theory by including cultural context and institutional context factors.

2.3 Summary

The study of a firm's expansion into foreign markets has received increasing attention at both conceptual and empirical levels. A number of theories and conceptual frameworks have been put forward outlining a company's decision to initiate the internationalisation process (Andersen 1997; Whitelock 2002). Andersen (1997) argued that it would be challenging to attempt to examine the various

frameworks regarding the foreign entry mode decision. Some of these theories include Hymer's theories (1976), product life cycle theory (Vernon 1966), incremental stage mode (Johnason & Vahlne 1977, 1990), the network model (Johanson & Vahlne 1990), resource-based model (Barney 1991), transaction cost theory (Williamson's 1985) and Dunning's eclectic theory (1980). While Dunning (1988) regards the eclectic theory as a (general) theory, Cantwell (1989) suggests that it is a paradigm while Itaki (1991) describes it as a taxonomy of various determinants of foreign direct investment. However, in the field of international business, there is no general agreement on what should be labelled as theory, conceptual framework or paradigm. All this suggests that there is the need to have a multi-framework approach (Arranz & Arroyabe 2008) to explain firms' internationalization. Hence, the present study based its argument on the eclectic paradigm and transaction cost theory because they contain elements which best explain international production.

The eclectic theory integrates several strands of international business theories on cross-border activities. It proposes that three types of variables influence cross-border business activities: ownership-specific variables, location-specific variables and internalization variables. Ownership-specific variables can be divided into asset specific advantages (Oa) and transaction variables (Ot). Ownership specific advantages include various tangible and intangible assets owned by the investing firm, whereas transaction specific advantages include variables related to the ability of firms to capture the transactional benefits from the common governance of multiple and geographically dispersed activities. Furthermore, the degree of possession of various ownership-specific variables influences the degree of establishment and ownership strategies of foreign FDIs in Ghana. Location-specific advantages (L) are essential in determining where firms will engage in cross-border value-adding activities. The level of location-specific advantages may also be expected to influence the establishment and ownership strategies in the context of Ghana. The last strand of the OLI approach comprises the internalization advantages (I) that the company has in transferring assets within their organizing instead of via the market, because of the market failures. The greater the perceived costs of transactional market failure – and the greater the benefits of circumventing market failure – the more likely the company will be to exploit its ownership-specific advantages within the firms and the greater the degree of ownership it will prefer in its FDIs in the case of ownership strategies in the context of Ghana.

The eclectic paradigm offers a holistic framework by which to identify and evaluate the significance of the factors influencing both the initial act of foreign production by enterprises and the growth of such production. The eclectic paradigm

remains a useful and robust general framework for explaining and analyzing not only the economic rationale of international production, but many organizational issues relating to multinational enterprise (MNE) activity. Cantwell (1991) maintains that it is an organizing paradigm for identifying the variables derived from different approaches, which are most relevant in explaining a wide range of different environments in which international production has been established. The eclectic paradigm is considered by some researchers as the most comprehensive explanation of international production. However, combining it with the transaction cost theory in the context of Ghana provides a better framework for understanding the role of risk and uncertainty, which are high in a developing country like Ghana. Hence, this study incorporates transaction cost theory in Dunning's theory.

3 STRATEGIC MOTIVES OF FOREIGN DIRECT INVESTMENT

In this chapter, the basic decisions related to the motivational strategies of the foreign firms in Ghana are reviewed. This chapter theoretically investigates how the ownership-specific, location-specific, and internalization-specific advantages influence the motivational strategies of foreign firms in Ghana. Then each of the above-mentioned advantages is reviewed in detail in different subchapters. Based on the extent of theoretical and empirical literature on motive strategies, several hypotheses are developed regarding the components of the eclectic paradigm, transaction cost theory and strategic motivational type of FDIs. The chapter ends with a summary of all the reviewed previous studies.

3.1 Motives for International Production

There are different types of motives for international production undertaken by a multinational corporation, and these include: 1) resource seeking, 2) market seeking 3) efficiency seeking and 4) strategic asset seeking (Dunning, 1993). Below is the analysis of the various motives of FDI.

3.1.1 *Market-seeking FDI project*

Market-seeking FDIs are undertaken to sustain or protect existing markets or to exploit or promote new markets (Dunning 1993). Market-seeking firms aim at increasing their sales – at least in a medium-term view (MacCarthy & Atthirawong 2003; Cheng & Kwan 2000). *Generally, market seekers are firms that invest in a particular country or region in order to serve markets in this country or region.* Thus, market-seeking firms generally choose those locations that are considered the best to achieve actual and future market growth goals (Dunning, 1998). FDI of this kind may also be employed as a defensive strategy: it is argued that businesses are more likely to be pushed towards this type of investment out of fear of losing a market rather than the promise of discovering a new one.

Apart from market size and expected market growth, there are other reasons for which market-seeking firms may undertake foreign investment. First, when important customers move abroad or when the need to respond to the unique local tastes and desires is pronounced, firms may be motivated to relocate their production in order to retain their business (Dunning 1993). Shepherd, Silberston and Strange (1985) investigate the motives underlying UK outward FDI, and the need

to stay close to customers was the single most important reason underlying the decision to undertake FDI. In addition, Shaukat and Hafiz (1996) examine the motives underlying UK outward FDI in Central Europe: staying close to customers was among the most important strategic motivations.

The second reason is that a firm may need to adapt its product to local tastes and specific market requirements, which can only be achieved through a market presence in the form of FDI. This is because without familiarizing themselves with local language, business customs, legal requirements and marketing producers, foreign producers might find themselves at a disadvantage vis a vis local firms in selling consumer goods like machines, stereo equipment and a wide variety of food and drink products, as well as those supplying intermediate products such as construction machinery, petrochemicals and forestry products, financial and professional services (Dunning 1993). The third reason is that the production and transaction costs of serving a local market from an adjacent facility may be lower than when supplying that market from a distance. The production of what is relatively costly to transport and can be produced economically in small quantities is more likely to be located near the main centres of consumption than are those that cost relatively little to transport and yield substantial economies of scale in their production (Dunning 1993:58).

The fourth reason is that a firm may consider it necessary, as part of its global strategy, to have a physical presence in the leading markets served by its competitors (Dunning 1993:59). Thus most of the large MNEs in sectors dominated by international oligopolists (e.g. oil, rubber tyres, pharmaceuticals, semiconductors and advertising) not only operate production units in each of the triad areas, but also are increasingly engaging in R & D. Dunning (1993) argued that strategic market-seeking investment might be undertaken for defensive or aggressive reasons. Aggressive investments are those designed to advance the global interests of a firm by investing in an expanding market. Unlike those engaging in other kinds of FDI, market seeking tends to treat their foreign affiliates as self-contained production units rather than as part of an integrated network of cross-border activities. In consequence, they tend to be the most responsive to local needs and requirements. The affiliates of market-seeking firms will normally produce similar products to those supplied by their parent companies, though usually in a truncated range. Generally, the output will be sold in the country in which it is produced, although there may be some exports to adjacent markets. By undertaking market-seeking FDI projects, the investing firms are motivated by the opportunity to capitalize upon their established O advantages (Randoy 1994; Hedlund & Kvernland 1984). These O advantages could be capitalized upon in new locations or by increasing the amount of production in already established locations. In addi-

tion, firms may also be motivated to undertake market-seeking FDI projects by the advantages associated with staying close to their customers and thus protecting their O advantage from deteriorating.

3.1.2 Resource seeking FDI project

Resource-seeking FDI is primarily undertaken to exploit the comparative advantages of individual countries, such as favourable access to raw materials, parts and components and low costs of labour (Brouthers, Werner & Wilkinson 1996; Dunning 1993a; Cantwell 1991). Resource-seeking firms naturally aim to access specific resources in the host country at lower cost levels than they achieve at present in their home countries (e.g. Galan, González-Benito, and Zuniga-Vincente 2007). They want to attain cost advantages in the host country environment, for instance through lower labour cost or advantages in the cost and availability of raw materials (Dunning 1998). These FDI projects are primarily undertaken to minimise production costs and/or to secure sources of supply. The reason may be to allocate production resources in countries where factor prices are low relative to a firm's productivity (Randoy 1994) and where it can serve foreign markets by exports (Kumar 1994). Resource-seeking FDI is normally export-oriented and less dependent upon access to the host country (Anderson & Fredriksson 1993). Resource-seeking MNEs focus on supply-oriented variables (Castro 2007), and assets for the economic growth of the home country (Jenkins & Edwards 2006; Ndikumana & Verick 2008).

Although resource-seeking FDI corresponds to a small proportion of outward FDI worldwide (Dunning 1993a), firms have been motivated by resource-seeking objectives in several empirical studies (Burgenmeier 1991; Bachtler & Clement 1990; Kayser & Schwarting 1989; Hedlund & Kverneland 1984). By undertaking resource-seeking FDI, the investing firms are motivated by the advantages derived from capitalizing upon the locational advantages of particular locations (Randoy 1994). Consequently, these firms undertake FDI projects in order to exploit their O advantages in new configurations of locational advantages. Foreign firms undertake resource-seeking FDI projects in order to increase potential rents to be realised from their O advantages.

3.1.3 Efficiency-seeking FDI project

Efficiency-seeking projects are undertaken in order to rationalize the structure of established production units in such a way that a firm can gain from the common governance of interrelated activities in different locations (Dunning 1993). Beh-

rman (1991) argues out that firms undertaking efficiency-seeking FDI are 'looking for the economic sources of production to serve a multicountry standardized market'. The potential benefits derived from undertaking efficiency-seeking FDI are especially those of economies of scale and scope, which are derived from product and geographical concentration and from process specialization (Balcer 1995; Dunning 1993; Kim & Whang 1994). The potential benefits are also derived from being established in the multiple product markets (Dunning 1993). It follows from the definition of efficiency-seeking FDI provided by Dunning that these FDI are undertaken primarily to capture, advance and/or utilise a firm's Ot advantages.

The efficiency-seeking objective is to reorganize and concentrate a firm's final goods production so that it can capitalize upon differences in relative factor endowments across countries and/or upon scale and scope economies (Robson 1992). Concentrating production resources in particular locations lead to an increased product and/or geographical concentration of economic activity. These efficiency-seeking FDI projects are distinguished from resource-seeking FDI projects in that the former reach beyond the advantages associated with mere production cost savings. The efficiency-seeking FDI are motivated by the transactional benefits of concentrating certain types of production resources in a limited number of locations and by the advantages of operating geographically dispersed value-added activities (that is, by the benefits of a firm-and planet-level economies of scale (Abdel-Malek 1995). The principal differences between efficiency-seeking and resource-seeking FDI projects are that the former goes beyond a country-by-country efficiency. While resource-seeking FDI are designed to internalise new location advantages, efficiency-seeking FDI are designed to change a firm's portfolio of locational advantages in order to capture the Ot advantages of a common governance of interrelated activities in different locations.

The advantages associated with exploiting the scale economics of product and/or geographical concentration on a global or regional scale (Kim & Whang 1994; Dunning 1993), as well as those scope economies associated with broadening the product line (Agren 1990) may motivate firms to initiate FDI designed to capture these advantages. These advantages are similar to the firm-level opportunity for global economies of scale and scope argued by Kim and Whang (1994). The benefit of exploiting economies of scale and scope may be captured by rationalizing and restructuring the configuration of a firm's established production unit, as well as by establishing new production units designed to serve the regional or global market. These benefits are reasoned to motivate firms to locate their manufacturing facilities where the marginal cost of production is lowest and to capture the advantages of operating interrelated activities within the firm (Kim et al. 1993;

Dunning 1993). In efficiency-seeking FDI products, the advantages of exploiting economies of scale and scope predominate over the importance of relative factor endowments across countries. These investments are normally undertaken in countries with broadly similar economic structures and income levels (Dunning 1993).

Dunning (1993) stated that an efficiency-seeking FDI is designed to take advantage differences in the availability of and costs of traditional factor endowments in different countries. This explains much of the division of labour within firms producing in both developed and developing countries, with capital, technology and information-intensive value-added activities being concentrated in the former, and labour and natural resources intensive activities in the latter. Here, traditional factor endowments play a less important role in influencing FDI, while “created” competencies and capabilities, the availability and quality of supporting industries, the characteristics of the local competition, the nature of the consumer demand and the macro-and micro-policies of the government play a more important role.

3.1.4 Strategic asset-seeking FDI project

Strategic asset-seeking MNEs comprise those which engage in FDI, usually by acquiring the assets of foreign corporations, to promote their long-term strategic objectives, especially that of sustaining or advancing their international competitiveness. The investing firms involved include both established MNEs pursuing an integrated global or regional strategy and first-time foreign direct investors seeking to buy competitive strength in an unfamiliar market (Dunning 1993). Previous studies have recognized that firms invest in foreign countries not only to exploit but also to develop their firm-specific advantages or acquire necessary strategic assets in a host country (e.g. Teece 1992; Dunning 1993, 1995; Chang 1995; Almeida 1996; Shan & Song 1997; Frost 2001). These studies suggest that a firm's firm-specific advantages would arise not only from the possession of proprietary assets but also of the capacity to acquire, or the efficient coordination of the complementary assets owned by other firms in a host country (Dunning 1995, 1998, 2000).

Dunning (1994) argues that a strategic asset-seeking FDI is probably the fastest growing of the four motives for overseas investment. Firms increasingly use FDI to obtain strategic assets (whether tangible or intangible) that may be critical to their long-term strategy but are not available at home. In contrast to the other motives for FDI, strategic assets-seeking investment does not imply the exploitation of an existing ownership advantage of the firm. Instead, FDI may be a vehicle for

the firm to build the ownership advantages that will support its long-term expansion at home and abroad. Alternatively, strategic asset-seeking investment may not involve strengthening the firm's position, but rather to weaken the competitive position of its competitors (Dunning 1993).

3.2 Ownership-specific factors

Dunning (1991:123) defined ownership advantages as "any kind of income generating assets, which make it possible for firms to engage in foreign production". He also pointed out that ownership advantages are concerned with the extent to which the firm has tangible and intangible assets unavailable to other firms (Dunning 1980; Dunning 1988). Ikechi et al. (2004:72) defined ownership advantages as the competitive or monopolistic advantages of the firm that helps the foreign firm to overcome the disadvantages of competing with the local firms. Based on the above definitions, a number of the ownership-specific variables are expected to have an influence on the choice of strategic motives.

3.2.1 *Firm size*

A foreign direct investment venture normally requires a large amount of capital and managerial resources as compared to exporting. This is because with exporting, there is no need for a company to move to the foreign location and do business, as the company only sends its products to the foreign market. With foreign direct investment, however, the investor has to move to foreign locations and set up the business there whether as a joint venture or wholly owned subsidiary. Generally, large firms owing their large resource base are often considered to be in a better position than smaller firms to make such commitments. It has been argued that the size and resources of the firms are likely to influence the perceived risk of a project; one might expect that the readiness to engage in FDI projects, which are associated with a higher perceived risk, is dependent on the availability of resources (Benito 1995). Theoretically, FDI ventures, unlike exporting, require substantial financial as well as managerial resources. It has been emphasized that large firms are more willing to undertake the risk and costs associated with FDI projects in distant and unfamiliar markets, due to their larger resource base (Buckley & Casson 1976; Pan 2003). Horsct (1972) argued that the firm size, more than any other variables, explained the propensity of US firms to invest in Canada in the 1960s. The impact of the firm's size has been investigated in several studies.

Previous studies (e.g. Owen 1982; Pearce 1989; Li & Guisinger 1992) argued that large firms are more willing to undertake the risk and costs associated with FDI projects in distant and unfamiliar markets due to their large resources. Wolf (1997) argued that there is a positive relationship between US firm size and FDI. Juhl (1978) examined German manufacturing FDI in developing countries and found that firm size was a positive and significant determinant of FDI. Also, Mutinelli and Piscitello (1997) argued that large firms often have a large resource base and, therefore, better possibilities to undertake FDI. However, a study conducted by Pearce (1989) found that there was no statistically significant relationship between firm size and the degree of multinationality of firms. According to Dunning (1993), market-seeking FDI is undertaken to sustain or protect existing markets or to exploit or promote new markets. Generally, big firms will have the ability to invest in large markets or markets that have good growth prospects, as compared to small firms (Wolf 1997; Li & Guisinger 1992). Big MNEs have global reach which means that they can very easily exploit market-seeking and efficiency-seeking opportunities globally. It is an established fact that production units are located where the marginal cost of production is lower. As a result of that it could be much easier for a large firm to organise their production structure in such a way that it can exploit the benefits of economies of scale production. This could then lead to higher efficiency gains, a lower marginal cost of production, and a large market share. All the above advantages of firm size are relevant when investing in developing countries like Ghana that are considered unstable in the short-to medium term. Consideration of the above viewpoints leads to the following hypothesis.

H1 There is a positive relationship between firm size and market seeking and/or efficiency seeking FDI.

3.2.2 *Firm's international experience*

Buckley and Casson (1985) argued that experience reduces the cost and uncertainty of serving a market. Firms with prior international activities can benefit from the associated learning and experience as well as their networks (Gaba, Pan, & Ungson 2002). Padmanabhan and Cho (1999) argue that the firm's past experiences manifest themselves in organizational routines that form the blueprint for the firm's future actions and, more importantly, serve as an import source of competitive advantages. Agarwal and Ramaswami (1992) stated that a firm without foreign market experience is likely to have more problems in managing foreign operations. However, it is often thought that firms accumulate the necessary skills to facilitate market entry via their previous experience operating in a given for-

eign market or in other foreign markets (Barkema & Vermeulen 1998; Delios & Henisz 2000; Henisz 2003). Buckley and Casson (1976) argued that increased knowledge of a foreign country reduces both costs and the uncertainty of operating in a foreign market. Experience helps to develop multinational expansion capabilities by reducing the overall liability of foreignness, whether defined in social, economic, or political dimensions. Because of exposure to international operations, a firm's organisational structure and its information gathering and assessing system are likely to be changed to adapt to this new challenge. This change, while caused by operations in certain countries, will have an impact on the firm's operation in other countries. Several previous studies have pointed out that prior investments in one country have a positive impact on investments in other countries (Henisz & Macher 2004).

Moreover, it is argued that earlier experience with a similar type of environment in a foreign country will allow the firm to "learn" from its experience, and the learning will become very valuable when dealing with similar circumstances. Moreover, most of the firms will like to use the same strategies, since they will enhance the value of the firm by reducing implementation costs in another foreign country, because the existing routines can be used. Chang (1995) argues that the more internationally experienced firms face fewer knowledge disadvantages. Also, Tallman (1992) argued for the importance of past decision specific experience in the firm's organizational structure decisions by stating that, "the firm may reduce the uncertainty in a given situation by attempting to imitate either its own previously successful structures or its competitors' in the new market".

However, Maclayton, Smith and Hair (1980) found that overseas business experience measured in a number of years has no relationship with a firm's evaluation criteria concerning a foreign market, even though previous studies have shown that international experience may help firms to evaluate prevailing risks and opportunities in the host country. In case of lower levels of institutional development in the host countries, uncertainties may be higher and firms may anticipate higher levels of investment risks generally increasing the transaction costs of foreign investments (Paul & Wooster 2008). Finally, majority of earlier research pointed to the fact that, there is a positive relationship between the level of experience and FDI decisions. Thus, a firm's ability to undertake market-seeking or efficiency-seeking FDI is impacted by its experience as knowledge gained from past international experience. Knowledge of international business provides the firm both the information and the ability to undertake FDIs in different environments.

As a developing African country, Ghana has a different culture from developed and Western countries. Therefore, experience of similar countries can be assumed to be useful for MNCs coming from developed and Western countries. The above-mentioned viewpoints lead to the following hypothesis.

H2 There is a positive relationship between international experience and market-seeking and/or efficiency-seeking FDI.

3.3 Location-specific factors

Dunning (1988) stated that location advantages referred to the extent to which the firm will profit by locating its ownership advantages in a foreign market. Firms interested in servicing foreign markets are expected to use a selective strategy and favour an entry into the most attractive market. These are because their chances of obtaining higher returns are better in such markets (Agarwal & Ramaswami, 1992). FDI theories suggest that foreign firms will prefer those countries that provide the best location-specific advantages. Still, it has been known that both ownership-specific and location-specific advantages separately and jointly influence the firm in its choice of the target country for its FDI venture. Dunning (1977) pointed out that theoretical developments have expanded the role of location-specific variables by suggesting that it may be tied to ownership-specific advantages.

3.3.1 *Market Size*

The investment decision requires consideration of factors such as market size. Market size and competitive environment are considered to be important determinants of FDI (Dunning, 1980; Porter, 1990). Empirical studies reveal a positive relationship between market size and FDI in developed countries (Dunning 1998). A large market size also provides a better opportunity for foreign investors to enjoy economies of scale that makes it conducive to sales not only in the internal market, but also for export to other markets. Wheeler and Moody (1992) stated that a large market size of a region has a significant and positive effect on attracting FDI. Foreign investors are likely to be attracted by large markets, which allow them to internalize profits from sales within the host countries. A large market allows the firm to maintain lower marginal costs of production through integration and economies of scale. These are generally the factors that concern companies engaging in the market seeking FDI (Dunning 1998; Chakrabarti 2001; Habib & Zurawicki 2002; Li & Resnick 2003). Globerman and Shapiro (2003) found that the market size was statistically the most important predictor of wheth-

er a country will receive FDI (as well as the amount it receives). This claim is confirmed by Nasser and Gomez (2009).

According to Ancharaz (2003), a large market provides relatively better opportunities for making profits, and so should also attract more FDI flows. The existence of scale economies makes it likely that a firm producing and selling in numerous sub-markets will hold a larger share in the average market than the typical competing firm operating in a single market: a seller is unlikely to expand production in a second region while scale economies remain to be exploited in the first (Caves 1971). There are also fixed costs associated with FDI, which are easier to deal with when spread over a large volume of output. The larger the market, the greater the reduction in the marginal costs of producing abroad and the more likely the firm will invest in that location rather than resort to exportation (Buckley & Dunning 1976). A number of empirical studies of FDI (e.g. Dunning 1980; Scaplerland et al. 1983; Papanastassiou & Pearce 1990) found that the market size of host countries has a significant and positive effect on attracting FDI.

Also, for the developing countries Root and Ahmed (1975), Schneider and Frey (1985) Petrochilas (1989), Wheeler and Moody (1992) found the market size to be a significant predictor of FDI. Furthermore, Obwona (2001) found that the market size was a significant determinant of FDI in Uganda. Investigating the determinants of FDI on developing and developed countries, Chakrabarti (2001) concludes that host country market size, measured by per capita GDP, has a positive and significant effect on FDI. In addition, Sabi (1988) stated that firms expect to experience greater long-term profits through economies of scale and lower marginal cost of production in countries with a larger market potential. Market-seeking FDI's are undertaken to sustain or protect existing markets or to exploit or promote new markets while efficiency-seeking FDI's aim to exploit local advantages to gain economies of scale and increase specialization (Dunning 1993). Markets perceived as large will be attractive in both respects as they provide large potential demand and potentially larger economies of scale. With a population of approximately 25 million people, Ghana is a medium-sized African country and the second largest population in West Africa. The country is a key player in the Economic Community of the West African States (ECOWAS) region where there is expected to be free movement of goods and services with a population of more than 250 million in the next decade. Investors interested in market seeking could be attracted to the Ghana market based on the regional market and not only the size of the Ghanaian market. The above-mentioned viewpoints lead to the following hypothesis.

H3 There is a positive relationship between perceived market size and market seeking and/or efficiency-seeking FDI.

3.3.2 *Host country risk*

The investment risk in a host country reflects the uncertainty over the continuation of present economic and political conditions and government politics, which are critical to the survival and profitability of a firm's operations in that country. Changes in government policies may cause problems related to repatriation of earnings and, in extreme cases, expropriation of assets (Root 1987). Rugman (1979) stated that the restrictive policies of a host country's government are likely to impede inward foreign investments. In environments characterized by high investment risks, the main effect suggests that firms are better off not entering, and exporting rather than investing if they do choose to enter. Political stability is a major influential factor in the decision to invest abroad. Host countries with a higher degree of political stability attract more inwards FDI (Wei, 2000). Where there are lower levels of political risk, MNEs will invest via FDI, but in areas characterized by high political risk, MNEs may avoid entering the market and may turn to other forms of international business instead (Jensen 2003). A study by Habib and Zurawicki (2002) measured political stability by Political Risk Services Inc.'s Political Risk Index (2000) which assigns a number on a scale from 0 to 100 to each country with 100 being the most stable. They found political stability to have a significant positive effect on FDI.

Edwards (1990) suggests that variables such as political instability and political polarization play a significant role in determining the flow of FDI into developing countries. Also, Agarwal (1980) found a negative correlation between political instability and FDI. Nigh (1985) uses regression analysis to show that political conflict is a strong deterrent of FDI in the developing host countries of Asia and Africa. Lizondon (1990) argued that some of the empirical studies, however, found mixed results. Lizondon's (1990) argued that a review of the literature on the determinants of FDI generally supported the negative relationship between political risk and FDI, albeit not in a conclusive manner. Likewise, Wheeler and Moody (1992) suggest little significance in the relationship between political factors and FDI. Dunning (1993) argues that firms may undertake FDIs designed to reduce the corporate risks associated with the changes of the national and regional governments of the host country. Since efficiency-seeking FDIs are aimed at achieving economies of scale or specialization through concentration, risky markets will be avoided as they will not provide the stability needed and will put the firm in danger of losing a critical part of its FDI. In general, investors perceive

Africa as a high investment risk environment. However, they will increase investments in African countries whose risk levels reduce (Owusu & Habiyakare 2011). Ghana is one of the most stable African countries. This has made the country attractive for foreign investment in Sub-Saharan Africa since the level of risk is lower than in other African countries. Based on the above viewpoints the following hypothesis is proposed.

H4 There is a negative relationship between perceived high investment risk and market-seeking/or efficiency-seeking FDIs.

3.3.3 *Cultural distance*

Hofstede (2001) defined culture as “the collective programming of the mind that distinguishes the members of one group or category of people from another”. Culture provides a challenge for the firms in terms of how to deal with the cultural distance within individual markets as well as across markets. Proper understanding of cultural differences informs when adaptation may be necessary and when regional or even global approaches could be applied. Culture is inherently conservative, but borrowing and interaction between various cultures (for example, by introducing new products and practices, new words in languages, etc.) may lead to narrowing of the distance between them. Normally, firms prefer to invest in countries with similar cultures because there will be no learning curve associated with such locations. Similarities in language, legal structure, and geographic proximity can explain the dominance of the U.K. and Canada as traditional U.S. targets (Green & Meyer 1997). Dubin (1979) found that UK-based firms have very often made their first FDI in Canada or in the US. Similarly, Bergholm and Jagren (1985) argued that Swedish firms have often made their first FDIs in other Nordic countries. However, Benito and Grisud (1992) found a very weak tendency for the first FDIs by Norwegian firms to be made in countries that are culturally closer than those where later investments are made. Further, they did not find any evidence that the greater cultural distance between the home and host country could have a negative effect on the FDI decisions of the firms.

Grosse and Trevino (1996) argue that those countries culturally dissimilar to the US and/ or farther away tended to have less FDI in the US. Davidson (1990) found that US firms have usually made their first foreign investments in countries like Canada and the UK. Root (1978) argues uncertainty due to cultural distance may also cause executives to undervalue foreign investment. Moreover, the potential rents realized from the investment are generally higher in culturally familiar countries than in unfamiliar countries. Clearly, cultural distance increases perceived risk and implies a low level of knowledge of the target market, which re-

duces the attraction of the market for market-seeking and efficiency-seeking FDIs. The foregoing authors clearly imply that an MNE cannot expect to achieve economies of scale or specialization in a market that it perceives as culturally-distant. Ghana's culture is different from that of the developed Western countries. It is therefore expected to reduce FDI flow to the Ghana. Consequently, the above-mentioned viewpoints lead to the following hypothesis.

H5 There is a negative relationship between perceived cultural distance and market seeking and/or efficiency seeking FDIs.

3.4 Internalization specific and transaction cost

Dunning defined internalization advantages as those that firms can transfer and which are in the best interest of firms possessing ownership advantages to transfer them across national boundaries within the own organization, rather than selling them, or giving the right to use them to foreign firms (Dunning, 1988). According to Kusluvan (1998:175) internalization advantages refer to the advantages of controlling and coordinating ownership and location specific advantages within the firms. From the above definition, it suggested that firms should choose an entry mode that can minimize the transaction costs caused by the transfer of firm-specific assets and can avoid the risk of the free-riding on the firm's reputation to balance the trade-off between their uncertainty of country risk and the reach of the economies of scale in their host market expansion.

Secondly, on the aspect of transaction cost, internalization advantages arise when MNCs are more efficient than markets and contracts in organising interdependencies between agents located in different countries. If a company intends to exploit firm-specific assets in a foreign market and this exploitation has to be done in that market due to localisation factors (e.g. trade barriers, high transportation costs or other country-specific factors), the company often tends to do this by investing abroad in their own facilities rather than through, for example, a license. The more intangible the firm-specific asset is, the stronger this tendency will be. The reason is that intangible assets are difficult to do business with. A number of internalization and transaction cost variables may have an impact on a firm's location choice. These variables include contractual risk.

3.4.1 *Contractual risk*

Flows of foreign direct investment (FDI) are typically explained by traditional cost determinants, such as factor or trade costs (e.g. Dunning 1993; Caves 1996).

An increasing number of researchers view risk factors as an important impediment to inward FDI. Contractual risk is made of risk of dissipation of knowledge, risk of deterioration of quality of services, and costs of writing and enforcing contracts, lack of patents, and license protection of laws, etc. The effect of contractual risk, which falls under internalization specific, suggests that firms will refrain from entering a country if the perceived risk of dissipation of knowledge, risk of deterioration of quality of services, and costs of writing and enforcing contracts are high. This is particularly critical for firms that have specialized knowledge, protection of which must be an important priority (Hill, Hwang & Kim 1990). However, these firms are also interested in maximizing the economic rents on their knowledge. Lack of protection would make sharing of specialized knowledge risky in the long run particularly since it would limit the flexibility a firm has in adapting to future contingencies. Since a flexible arrangement is difficult to achieve in a contractual setting, a firm that has specialized knowledge will be expected to opt for internal organisation. On the other hand, when the contractual risks are low in a particular country, the foreign investor is willing to invest in that country and a firm may be more willing to share its specialized knowledge. This is because as risk dissipation falls, the opportunity for mutually beneficial contractual arrangement increases at the expense of an internal market (Rugman 1981). This opportunity will also be higher in countries where the cost of writing and enforcing contracts is low. In spite of the availability of resources in the target market, high-perceived contractual risks raise transaction costs and therefore, reduce the attractiveness of MNEs to undertake resource seeking FDI.

In less developed countries, institutions such as transparent and efficient government, property protection regimes and enforceable contracts are often quite weak (Cuervo-Cazurra & Genc 2008). However in Ghana, the existing laws of intellectual property rights, patent protection and so on could make it an ideal place for investors seeking to undertake FDIs. Nonetheless, the implementations of such laws have not been as stringent as might be found in advanced countries. Therefore, there are relatively high contractual risks in Ghana compared to advanced countries. Contractual risk in Ghana will be considered relatively low compared to other Africa countries. Generally, the cost of making and enforcing contracts are considered high. Hence based on the above-mentioned viewpoints, we propose following hypothesis.

H6 There is a negative relationship between perceived contractual risk and resource-seeking FDI.

3.5 Summary

The main goal of this chapter was to theoretically examine the motives of MNCs in their FDI to Ghana. The determinants of FDI motives have been categorized into three groups. They are market-seeking, resource-seeking, and efficiency-seeking factors. Based on the literature review, it is expected that the ownership specific factors like firm's size and firm's international experience increase the probability to undertake market-seeking and efficiency-seeking FDIs in Ghana. Secondly, with regards to location specific factors, it is expected that market size increases the probability of investing firms undertaking market seeking FDIs. In contrast, high country risk and the high cultural distance decrease the probability of a foreign investing firm undertaking efficiency seeking and market seeking FDIs respectively. Finally, with regards to internalization specific and transaction cost specific factors, it is expected that high contractual risk in Ghana will decrease the probability of a foreign firm undertaking efficiency-seeking FDIs in Ghana. By identifying the motives of FDI projects, it becomes possible to analyze directly and explicitly the role of ownership-specific, location-specific, internalization specific and transaction cost specific factors affecting the propensity of foreign firms to undertake FDI projects. The distinctions among the motives of FDIs highlight "differences in key features associated with different FDI projects" (Brewer 1993:105; Ekström 1998:90) and they indicate the varying motives that investing firms seek by undertaking FDIs. This analysis will not only add to our understanding of the transaction cost and eclectic paradigm but also broaden our knowledge of FDI in general. Table 4 provides a summary of previous empirical studies on motives.

Table 4. Empirical findings of the past studies of motive

Variables	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20
Large market size	-					+				+							+	+	+	+
International experience	-									+				+				+		
Large firm size		+	+					+						+				+		
Large cultural distance																				
High country risk																				
R & D											+		+			+				
Low cultural distance				+				+				+								
Political instability					-											-				

+ means increases the probability of undertaken FDI. - means decreases the probability of undertaken FDI.

1 MacLayton, Smith & Hair (1980) 2 Scaperlanda & Balough (1983) 3 Lall & Mohammad (1983) 4 Bergholm & Jagren (1985) 5 Edwards (1992) 6 Papanastassiou & Pearce (1990) 7 Wheeler & Moody (1992) 8 Benito & Gripsud (1992) 9 Li & Guisinger (1992) 10 Chang (1995) 11 Belderbos & Sleuwaegen (1996) 12 Grosse & Trevino (1996) 13 Shan & Song (1997) 14 Padmanabhan & Cho (1999) 15 Ishaq (1999) 16 Kuemmerle (1999) 17 Haq (2001) 18 Tahir 2003 19 Tahir & Larimo (2006). 20 Tahir & Weijing (2011)

4 ESTABLISHMENT MODE OF FOREIGN UNITS

In this chapter, the decisions related to the establishment mode choice strategies of the investing firms in Ghana are reviewed. When MNEs decide to invest equity in a foreign country, they face at least two strategically important decisions: first, whether to buy an existing foreign entity (launch an acquisition) or second, to establish a foreign operation from scratch (invest in greenfield). This chapter theoretically reviews how ownership-specific, location-specific, internalization and transaction cost influence the establishment mode strategies of the foreign manufacturing investing firms in Ghana. Based on the extent of theoretical and empirical literature on establishment mode strategies, several hypotheses are developed regarding the components of the eclectic paradigm and transaction cost.

4.1 Ownership-specific factors

4.1.1 *Firm size*

Hennart and Park (1993) argued that managerial constraints on greenfield expansion might be especially tight when the investor is a relatively small size organization. A study by Kogut and Singh (1988) showed that the greater the size of the parent organization, the greater the likelihood of a greenfield entry. Caves and Mehra (1986) also found that larger firms are more likely to enter through greenfield investment. In contrast, other studies (e.g. Padmanabhan & Cho 1995; Barkema & Vermeulen 1998; Harzing 2002; Mudambi & Mudambim 2002) reported that large firms tend to prefer acquisitions rather than greenfield investment. The rationale behind this argument is that large firms have the managerial resources and capabilities and, as a result, may be able to facilitate the integration and the control of the acquired or partly acquired company easily as compared to small firms.

However, other studies produce mixed result while others did not find any significant relationship between firm size and entry mode. For example, Larimo (2003) examined the entry mode of Nordic firms and found a significant relationship between the firm size and entry modes of Finnish firms, but could not find any significant relationship in the case of Danish, Norwegian or Swedish MNEs. Furthermore, Chang and Rosenzweig (2001) could not find any significant relationship between the size of a parent firm and the entry mode. In view of different arguments put forward by scholars, for the purpose of this study, I will take a stand and support the argument put forward by the following scholars (e.g. Pad-

manabhan & Cho 1995; Barkema & Vermeulen 1998; Harzing 2002; Mudambi & Mudambim 2002) that large parent companies may have the resources and capabilities and thus may be able to easily facilitate the integration and control of an acquired or partly acquired firm than the small firm. Therefore, it is more likely that large firms will opt for acquisition mode of entry. Based on the above information I propose that:

H7 There is a negative relationship between firm size and greenfield mode of establishment.

4.1.2 *Firm's international experience*

Slangen and Hennart (2007) argued that the level of prior international experience is essential in entry mode decision. Also, Padmanabhan and Cho (1999) stated that firms' past experiences transform into organizational routines and consequently, create a model for future actions and become a source of competitive advantage. A foreign firms experience can contribute to the development of new knowledge and capabilities (Barkema et al. 1996) and, as a result, can make a firm efficiently reduce the uncertainties and threats, and increase awareness of opportunities in different foreign markets (Sambharya 1996). Thus, it is very important for the firm to use such experience in their choice of foreign market entry mode (Herrmann & Datta 2002). Ravenscraft and Scherer (1987) argued that when MNEs acquire foreign firms, they often face integration problems. That is, the acquired firms could have its' own organization culture, which would make it more difficult to integrate with the acquired firms. The foreign investor does not always overcome this problem until it acquires more international experience, before it would be able to bear the risk of an acquisition and to integrate subsidiaries of diverse managerial nationality. Previous studies (e.g. Slangen & Hennart 2008; Herrmann & Datta 2006; Chen & Zeng 2004; Harzing 2002; Mudambi & Mudambi 2002) found positive relationship between international experience and acquisition mode entry.

Caves and Mehra (1986) argue that a firm with greater experience can reduce the risk of acquiring existing firms. They demonstrate that the experience of investing firms in the foreign markets is significantly linked with the choice of acquisitions over greenfield. Furthermore, Kogut and Singh (1988) and Hennart and Reddy (1997) suggest that highly internationally experienced firms are more likely to expand through acquisition. Based on the above information we propose that:

H8 There is a negative relationship between international experience and greenfield mode of establishment.

4.2 Location-specific factors

4.2.1 *Market size*

Demirbag et al. (2008) argued that market potential in the host country is one of the most important determinants of an MNE's entry mode decision. Porter (1980) argued that in a growing market, individuals could expect MNEs to use a direct entry mode to capture market share and realize growth goals, but to establish an early presence in the market may require an acquisition rather than a greenfield investment. Furthermore, Buckley and Casson (1998) argued that in a situation where there exists a large monopoly of rents, the entrant will favour the acquisition over greenfield in both manufacturing and distribution. This is based on the entrant's desire to establish long-term control over the domestic rivals' production or distribution. In a situation whereby the foreign investors decide to make a fast move and capitalize on first-mover advantages, an acquisition of a local business with an existing network may be preferred to a greenfield investment, since the foreign firm does not need to look for a new location to set up new plant, but rather acquire the existing plant and manage it. Laurila and Ropponen (2003) also suggested that, in the face of rapid market growth, greenfield investment may be too slow to achieve the new entrants planned objective and as a result of that, acquisition will be the preferred choice for the investor to opt for.

Ghana is a medium-sized African market and the second largest in West Africa. Besides, Ghana is a key player in the Economic Community of the West African States (ECOWAS) region where there is expected to be a free movement of goods and services, with a population of more than 250 million, in the next decade. Therefore, foreign investors will be attracted to invest in Ghana based on the regional market and not only on the size of the Ghanaian market. Based on the above we propose that:

H9 There is a negative relationship between perceived market size and greenfield mode of establishment.

4.2.2 *Host country risk*

Root (1987) argued that country risk impacts on the FDI decisions of MNEs. Also, Demirbag et al. (2008) argued that foreign firms entering new market aim to minimize the environmental risks associated with their operations. Ahmed et al. (2002) stated that the level of risk perceived by MNEs plays a crucial role in the entry mode decision. In addition, Brouthers and Brouthers (2003) argued that risk

propensity variables were significant determinants of both manufacturing and service sector international entry mode decisions. In a highly volatile environment, firms will try to minimize their exposure to risk through an entry mode that offers the necessary flexibility in the face of environmental variability (Erramilli & D'Souza 1995; Kim & Hwang 1992). Hill, Hwang and Kim (1990) argued that firms reducing resource commitment in unsafe environments help to reduce their financial exposure in situations where they can be adversely affected or forced to cease their activities by unforeseen events. Also, studies by Woodcock et al. (1994) and Hennert (1998) reveal that there are high costs associated with acquisitions compared to greenfield investment due to post-acquisition integration and other structural changes in the subsidiary.

The investment risk of Ghana is much higher than that of developed countries. This argument stems from the fact that institutional structures are not well developed in Ghana as compared to advanced countries. Ghana is a young democratically governed country and is relatively stable. The environment may still be considered risky by world standards, primarily because of its neighbours, whose economy is unpredictable. Based on the above we propose that:

H10 There is a positive relationship between perceived host country risk and greenfield mode of establishment.

4.2.3 *Cultural distance*

Cultural distance has been argued to affect the choice between MNEs expanding abroad through greenfield investment or acquisition (e.g. Brouthers & Brouthers 2000; Kogut & Singh 1988; Larimo 2003), the so-called 'establishment mode choice' (Cho & Padmanabhan 1995). The cultural risks and costs related with greenfields are normally measured to be limited, because the managers appointed to build the business – often expatriates – can carefully select and hire employees who fit the national culture of the MNE (Hofstede 2001; Vermeulen & Barkema 2001), and can introduce the MNE's organizational and management practices from the outset (Kogut & Singh 1988; Larimo 2003). Also scholars (e.g. Kogut & Singh 1988; Larimo 2003) have argued that the larger the cultural differences between countries, the larger the differences in their firms' organizational and managerial practices. Hence, it is difficult for MNEs to integrate into their corporate network acquisitions made in culturally distant countries, as the practices of MNEs and acquired firms are likely to be incompatible and difficult to transfer in such cases (Brock 2005; Go´mez-Mejia & Palich 1997).

Larimo (2003) argued that when there is large cultural distance between two countries, there are large differences in their firms' organizational and management practices. As a result of these differences, post-acquisition incorporation will become more difficult, because the practices used by MNE and the acquired units will become increasingly incompatible (Cho & Padmanabhan 1995). Similarly, Olie (1996) argued that, large differences in organizational and management practices are likely to lead to misunderstandings of motives and intentions, all of which hamper smooth relations between people from different national cultures. Previous studies (e.g. Drogendijk & Slangen 2006; Herrmann & Datta 2006; Chen & Zeng 2004; Larimo 2003; Harzing 2002, Mudambi & Mudambi 2002; Chang & Rosenzweig 2001; Vermeulen & Barkema 2001) found positive relationship between cultural distance and greenfield mode entry. Earlier research has therefore argued that managers anticipating the above problems tend to avoid acquisitions in culturally distant countries and prefer greenfield investments instead. The reason is that greenfields allow MNEs to choose their own workforce, and to establish their own practices from the beginning, thus minimizing these problems. Ghanaian business culture is different from Western culture. It is therefore expected that foreign firms planning to make FDI in Ghana will use the greenfield mode of investment in order to avoid cultural problems. In line with prior research, we propose that:

H11 There is a positive relationship between perceived cultural distance and greenfield mode of establishment.

4.3 Internalization specific and transaction cost

4.3.1 *Contractual risk*

The result of the internalization advantage suggests that firms will desist from entering a country if the perceived risk of dissipation of knowledge, risk of deterioration of quality of services, and costs of writing and enforcing contracts are high. This is particularly critical for firms that have specialized knowledge, protection of which must be an important priority (Hill, Hwang & Kim 1990). However, these firms are also intent on maximizing the economic rents on their knowledge. Lack of protection would make the sharing of specialized knowledge risky in the long run particularly since it would limit the flexibility a firm has in adapting to future contingencies. Since a flexible arrangement is difficult to achieve in a contractual setting, a firm that has specialized knowledge will be likely to opt for an internal organization.

On the other hand, when the contractual risk is low in the host country, a firm may be more willing to share its specialized knowledge. This is because as risk dissipation falls, the opportunity for mutually beneficial contractual arrangement increases at the expense of an internal market (Rugman 1981). This opportunity will also be higher in countries where the cost of writing and enforcing contracts is low. For those firms that do not possess any specialized knowledge, the presence of contractual risk may not be a critical issue. These firms may be willing to opt for contractual arrangements even when the contractual risk is high (Rugman 1982). Thus the assessment of internalization advantages is based on the relative costs (or risks) of sharing the asset skills with the host firm versus integrating them within the firm. The idea behind contractual risk is that firm knowledge which is classified under the transaction cost theory as asset specificity and under the eclectic paradigm as ownership advantage is protected in the foreign market. In a foreign market where there is a high risk of contractual risk, foreign firms try to protect their ownership advantage by opting for greenfield in order to make sure that its' asset specificity is being protected.

In developing countries, institutions such as transparent and efficient government, property protection regimes and enforceable contracts are often quite weak (Cuervo-Cazurra & Genc 2008). Ghana belong to these developing countries and, even though the country has laws governing intellectual property rights, one might expect that having these laws on intellectual property rights, patent protection and so on could encourage an acquisition mode of entry of foreign firms with both specialized knowledge and non-specialized knowledge. However, institutional bottlenecks and the weak monitoring systems make these laws not effective and, as a result, make greenfield mode of entry preferable to acquisition entry mode. Based on the above viewpoints the following hypothesis is proposed.

H12 There is a positive relationship between perceived contractual risk and greenfield mode of establishment.

4.3.2 *Proprietary assets*

A number of scholars (e.g. Erramilli & Rao 1993; Meyer & Estrin 1997; Luo 2001) argued that the level of a firm's technological intensity is considered to be a critical determinant of foreign market entry strategy. The nature of the key competencies of the investing firm influences the costs of alternative entry strategies (Meyer & Estrin 1997). Hennart (1988) argued that transaction cost theory stresses the significance of proprietary assets possessed by companies. These assets typically include a firm's proprietary knowledge, products, processes, brand name, product differentiation, marketing skills, etc., which are difficult to transfer

in an imperfect market. Hennart (1982) argues that one input that MNEs may want to exploit or obtain abroad is firm-embedded technological knowledge, which is often tacit and hence costly to exchange through the market. Brouthers and Nakos (2004) argued that a company can protect its specific knowledge to minimize transaction costs by integrating foreign operations. If a firm possesses a specific technology or knows how, it has to take extra precautions to protect itself from knowledge diffusion into the hands of competitors (Klein 1989). Technologically oriented firms strive for implementing their own culture and to protect their technologies. They tend to avoid compatibility problems with the business cultures, business methods, and technologies of existing firms (Meyer & Estrin 1997). In line with this argumentation, previous research has shown that knowhow-intensive firms prefer to choose greenfield investments over acquisitions to safeguard their proprietary knowledge (Andersson & Svensson 1994; Brouthers & Brouthers 2003; Dikova & van Witteloostuijn 2007; Gatignon & Anderson 1988; Kim & Hwang 1992).

The transaction costs associated with exploiting such knowledge through greenfield are generally lower than those associated with exploiting them through acquisitions, as greenfields enable MNEs to deploy their technologies from the outset and to transfer the accompanying skills to a carefully-selected workforce capable of and willing to absorb them (Hennart & Park 1993). On the other hand, where an MNE lacks proprietary technological knowledge, it may be motivated to obtain it to improve its competitive position (Slangen & Hennart 2007). Since such knowledge is time-consuming and costly to develop internally (Wernerfelt 1984), and difficult to purchase on the market because of its tacit nature and its embeddedness in firms, it is most efficiently obtained through acquisition (Hennart et al. 1996; Larimo 2003). In contrast, MNEs with abundant firm-embedded technological knowledge are likely to choose greenfield and those lacking such knowledge are likely to choose acquisition.

Entering a country like Ghana with weak institutions exposes the firm to additional challenges of knowledge protection. To minimise opportunistic behaviour and diffusion of specific knowledge, firms need to establish specific control mechanisms (Klein, Frazier & Roth 1990; Gatignon & Anderson 1988). Ghana has weak institutions; the political and legal frameworks do not support efficient and functioning intellectual property rights. Luo (2001) argued that when risk is high, property rights' protection is generally weak, both in enactment and enforcement. Without sufficient legal protection, a firm's property rights and tacit knowledge (such as patents, trademarks, brands, know how, and copyrights) can be exposed to piracy. Based on the above information we propose that:

H13 There is a positive relationship between proprietary asset and greenfield mode of establishment.

4.4 Impact of Motives on Establishment Mode

4.4.1 *Market-seeking and establishment mode*

Market-seeking MNEs are firms that invest in a particular country or region in order to serve markets in this country or region. Firms undertake market-seeking foreign investment for the following reasons: a) market size and expected market growth; (b) following its main suppliers or customers who are located overseas; (c) the need to adapt its product to local tastes and specific market requirements, which can only be achieved through market presence in the form of FDI; (d) production and transaction costs of serving a local market from an adjacent facility may be lower than when supplying that market from a distance; and (e) the necessity, as part of its global strategy, to have a physical presence in the leading markets served by its competitors. Unlike other types of foreign direct investors, market-seeking firms tend to treat their foreign affiliates as self-contained business units rather than as part of an integrated chain of value-adding activities (Dunning 1993).

Porter (1980) argues that in a growing market, one will expect MNEs to use a direct entry mode to capture market share and realize growth goals. However, to establish an early presence in the market may require an acquisition rather than a greenfield investment. Furthermore, Buckley and Casson (1998) argue that when a large monopoly of rents exists, the entrant will favour acquisition over greenfield both in manufacturing and distribution. This is based on the entrant's desire to establish long-term control over the domestic rivals' production or distribution. In a situation whereby the foreign investors decide to make a fast move and capitalize on first-mover advantages, an acquisition of a local business with an existing network may be preferred to a greenfield investment. This is because the foreign investor does not need to look for a new place to set up a new plant, but rather acquires the existing plant and manages it.

H14 There is a negative relationship between market-seeking FDI and greenfield mode of establishment.

4.4.2 *Resource-seeking and establishment mode*

Gorynia et. al. (2006) argued that resource-seeking MNEs are motivated to invest abroad to acquire specific resources at a lower cost than could be obtained in the home country. Their aim is to explore the comparative advantages of individual countries, such as favourable access to raw materials, parts and components, and low costs of labour (Brouthers, Werner & Wilkinson 1996; Dunning 1993a; Cantwell 1991). Their investment are primarily undertaken to minimise production costs and/or to secure sources of supply. The reason may be to allocate production resources in countries where factor prices are low relative to a firm's productivity (Randoy 1994) and where it can serve foreign markets by exports (Kumar 1994). Investors of this nature are normally export-oriented and less dependent on access to any particular country (Anderson & Fredriksson 1993). Resource-seeking investment may also aim at utilizing the human capital of a local firm for global operations. In order to access local human capital, a direct takeover may be more efficient because setting up a new operation and hiring key individuals does not permit the entrant to tap into local tacit knowledge. Foreign firms that enter Ghana in search of resources like cheap labour or raw materials are likely to enter through acquisition because most of the existing resource firms are owned by the state. Based on the above information we propose that:

H15 There is a negative relationship between resource-seeking FDI's and greenfield mode of establishment.

4.4.3 *Efficiency-seeking and establishment mode*

Dunning (1993) argued that the aim of efficiency-seeking MNEs is to take advantage of different factor endowments, business incentives, and institutional arrangements, by concentrating production in a limited number of locations to supply many markets. The motivation of efficiency seeking investors is to streamline their production, distribution and marketing activities through synergy-building among geographically dispersed operations. These strategies stem from two sources: the advantages of differences in the cost of factor endowments between countries, and the economies of scale and scope (Dunning 1993).

According to Dunning (1993), this is the reason for much of the division of labour within firms producing in both developed and developing countries, with high value-added activities being concentrated in the advanced countries, and labour and natural resources intensive activities in the developing countries. Cross-border markets must be both well-developed and open, in order for efficiency-seeking foreign production to take place; hence efficiency-seeking FDI's often

flourish in regionally integrated markets (Dunning 1993). These firms are likely to adopt greenfield mode of entry in Ghana because of the undeveloped regional market and the lack of companies to acquire. Based on the above information we propose that:

H16 There is a positive relationship between efficiency-seeking FDI and greenfield mode of establishment.

4.5 Summary

The main goal of this chapter was to examine the determinants of an MNE's choice between greenfield and acquisition modes of entry. It theoretically reviews how different ownership-specific, location-specific, internalization and transaction cost specific factors influence the establishment mode strategies of the foreign manufacturing units in Ghana. The determinants of establishment mode strategies have been categorized into different groups. First, ownership specific advantages include firm size and international experience. Second, location-advantages, which consists of market risk, country risk and cultural distance. Finally, internalization specific and transaction cost theory which is made up of contractual risk and proprietary assets. Based on the literature review, it is therefore expected that the firm's size and the firm's international experience will increase the probability of foreign firms choosing acquisition over greenfield. Similarly, with regards to location-specific factors it is expected that perceived market size will increase the probability of foreign firms choosing an acquisition entry mode in Ghana. In contrast, it is expected that perceived culture distance and the perceived host country risk will increase the probability of foreign firms choosing greenfield mode of entry in Ghana.

Furthermore, with regards to internalization specific and transaction cost specific factors, it is expected that perceived contractual risk will increase the probability of foreign firm choosing an acquisition mode of entry in Ghana. In contrast, it is expected that proprietary assets will increase the probability of foreign firms choosing greenfield mode of entry Ghana. Examining these factors therefore helps in understanding the factors that influence the establishment mode strategies of foreign manufacturing units in Ghana. This analysis will not only add to our understanding of the eclectic paradigm and transaction cost but also broaden our knowledge of FDI in general. Table 5 provides a summary of previous empirical studies on the establishment mode.

Table 5. Empirical findings of the past studies of establishment mode (adapted and modified from Slagen & Hennart 2007)

Variables	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	
Parent's international experience	-		n.s	+	n.s	n.s	+	n.s			-		-	-	-	-	-	+	+	+	+		n.s	n.s				
Prior experience in the host market		+	n.s				+	n.s	+		+		+	n.s			-				n.s						+	-
parent's R&D intensity		n.s	n.s			-	-	-			n.s			-	-	-	n.s				-	n.s	-	-	+			
Parent size			n.s				n.s	n.s				-	n.s	n.s	+	+	n.s	+			+		n.s	n.s		n.s	+	
Cultural distance			-					-			n.s		-	-	n.s	-	-	-			-	n.s	-	-	-	n.s	-	
Degree of diversification of foreign parent	+	+	+		+	n.s		n.s						n.s	+	n.s	n.s				n.s				n.s		+	
Venture unrelated to existing businesses		n.s			n.s	+		n.s		n.s	n.s	+	+	n.s	-	n.s	+	+	+			+			n.s	n.s		

+ means increased probability of establishment through acquisition.- means ncreased probability of establishment through Greenfield. N.S = not significant

1 Wilson (1980) 2 Caves & Mehra (1986) 3 Kogut & Singh (1988) 4 Forsgren (1989) 5 Zejan (1990) 6. Hennart & Park (1993) 7 Anderson & Svensson (1994) 8 Padmanabhan & Cho (1995) 9 Hennart, Larimo & Chen (1996) 10 Hennart & Reddy (1997) 11 Anand & Delios (1997) 12 Shaver (1998) 13 Barkema & Vermeulen (1998) 14 Padmanabhan & Cho (1999) 15 Brouthers & Brouthers (2000) 16 Vermeulen & Barkema (2001) 17 Chang & Rosenzweig (2001) 18 Mudambi & Mudambi (2002) 19 Esteban et al (2002) 20 Harzing (2003) 21 Larimo (2003) 22 Bhaumik et. al (2005) 23 Herrmann & Datta (2006) 24 Drogendijk & Slangen (2006) 25 Dikova & van Witteloostuijn (2007) 26 Demirbag et al. (2008) 27 Kamel (2009).

5 OWNERSHIP MODE OF FOREIGN UNITS

This chapter theoretically reviews how ownership-specific, location-specific, internalization and transaction cost influence the ownership mode strategies of the foreign manufacturing investing firms in Ghana. Based on the extent of theoretical and empirical literature on ownership mode strategies, several hypotheses are developed regarding the components of the eclectic paradigm and transaction cost. The chapter reviews the decisions related to the ownership mode's strategies of the foreign firm in Ghana.

5.1 Ownership specific factors

5.1.1 *Firm size*

Erramilla and Rao (1993) argue that a large firm has a greater ability to put in resources to absorb risks than a smaller firm, so it is normally preferred to establish a high-controlled mode. The same result has been demonstrated by a study conducted by Hennart and Park (1993). The argument in the literature is that integration entails significantly higher resource commitments such as WOSs and carries a greater risk than shares-control structures. Hence, large firms have a greater ability to expend resources and absorb risk than smaller ones and, therefore, are more likely to establish WOSs. Also, Benito (1995) suggest that foreign firms with strong financial resources may enter foreign markets via WOSs. The rationale behind this argument is that large firms are more likely to possess the necessary financial resources for full ownership of its foreign operations and are better positioned for a more resource-demanding and full ownership structure than smaller firm (Padmanabhan & Cho 1996).

Previous studies (e.g. Buckley & Casson 1976; Kimura 1989) suggest that a firm's ability to marshal resources is a potential determinant of ownership structure choice. Similar, the results by Stopford and Wells (1972), Kogut and Singh (1985; 1988b) give support to the assumption that the probability of choosing a joint venture is greater among small firms than among big firms. A study by Larimo and Tahir (2001) found that large-size Nordic manufacturing firms preferred a wholly-owned subsidiary (WOS) in Asian markets. Furthermore, the following scholars (e.g. Claver & Quer 2005; Lee 2010; Shi et al 2001; Leung et al. 2003; Nakos & Brouthers 2002; Evans 2002; Lee et al. 2009) found a positive relationship between firm size and WOS. In contrast, there are other studies that lead to the opposite prediction. For example, Larimo (1993) found that large size Finnish

manufacturing firms had a higher propensity to enter OECD countries through JVs, while Brouthers (2002) found that firm size was a non-significant associated with ownership mode choice. Based on the above information we propose that:

H17 There is a positive relationship between firm size and WOS mode of ownership.

5.1.2 *Firm's international experience*

Sanchez-Peinado, Pla-Barber and Hebert (2007) argued that international experience can reduce the costs and risks of foreign market entry, making higher level entry mode choice more attractive. Also, Padmanabhan and Cho (1999) argued that international experience is considered as one of the critical factors affecting the entry choices. Erramilli (1991) pointed out that the benefits of a foreign firm having some previous international experience when choosing an entry mode suggest that the more experience the firm has, the less it will require from a partner and it will, therefore, be less inclined to use cooperative modes. In addition, Johanson and Vahlne (1990) suggest that if a foreign firm is less experienced in a foreign market, the firm is expected to have local partners to help compensate for its insufficient market knowledge. Previous studies confirm that firms with greater international experience tend to prefer equity-based entry modes, while firms without international experience tend to choose non-equity modes of entry (e.g. Agarwal & Ramaswami 1992; Brouthers & Nakos 2004; Erramilli, 1991; Nakos & Brouthers 2002).

Barkema et al. (1996) argue that, in practice, a firm's foreign experience can contribute to the development of new knowledge and capabilities and, as a result of that, can make a firm efficiently reduce the uncertainties and threats and increase awareness of opportunities in different foreign markets (Sambharya 1996). Hence it is very important for the firm to use such experience in the choice of foreign market entry mode (Herrmann & Datta 2002). Furthermore, Johanson and Vahlne (1977) argued that a firm with more experience in foreign markets should have developed organizational capabilities suited to those markets, and thus they can make greater commitments to foreign market investments by using high control mode. Brouthers and Brouthers (2000) argue that less-experienced firms lacking such routines may prefer joint ventures. Previous studies (e.g. Anderson & Gatignon 1986; Gatignon & Anderson 1988; Blomstrom & Zejan 1991; Hennart 1991; Mutinelli & Piscitello 1998; Evans 2002; King & Tucci 2002; Nakos & Brouthers 2002; Yung-Heng & Yann-Haur 2009; Lee et al. 2009; Lee 2010; Chiao et al. 2010; Dikova & Willeloosuijn 2007) suggest that an increase in the organization's international experience tends to lead the organization to use higher

ownership control mode. While other studies (e.g. Arslan & Larimo 2010; Claver & Quer 2005; Brouthers 2002; Shi, Ho & Siu 2001) indicated an insignificant relationship between experience and choice of ownership. However, most of the empirical studies point to a positive relationship between international experience and preference for WOSs. Based on the above information we propose that:

H18 There is a positive relationship between international experience and WOS mode of ownership.

5.2 Location-specific factors

5.2.1 *Market Size*

Morschett et al. (2010) argued that the attractiveness of a foreign market is seen as a predominant factor in market selection and in the choice of a market entry mode. Researchers (e.g. Taylor et al. 1998; Brouthers 2002; Randoy & Dibrell 2002) argued that firms are assumed to enter attractive markets via wholly owned subsidiaries. This is based on the fact that countries that are characterized by high market attractiveness are seen to have better prospects to take up supplementary capacity, which provides an opportunity to improve firm efficiency (Morschett et al. 2010).

A lot of studies (e.g. Davidson & McFetridge 1985; Erramilli et al. 1997; Ekeledo & Sivakumar 1998) have argued that increasing market size leads to an enhanced resource commitment in the country: that is, market size is positively related internalization. According to Agarwal, (1994) a large host country market implies that companies can expect returns that are commensurate with the higher risk associated with commitment of resources. Previous studies (see e.g. Agarwal & Ramaswami 1992; Nakos & Brouthers 2002; Eicher & Kang 2002; Chung & Enderwick 2001) argued that in a large size market, firms tend to prefer WOSs so that they can obtain scale economies, hence reducing cost, and also to establish a long-term market presence. Ghana is a medium-sized African market and the second largest in West Africa but small by international standards. Hence, looking at the internationally, small-market size may favour JV than WOSs ownership mode decisions in Ghana. Based on the above we propose that:

H19 There is a positive relationship between perceived market size and WOS mode of ownership.

5.2.2 *Host country risk*

A country risk reflects the uncertainty over the continuation of present economic and political conditions and government politics, which are deemed to be critical to the survival and profitability of a firm's operations in that country (Agarwal & Ramaswami 1992). Morschett et al. (2010) argued that where there is uncertainty, transaction cost reasoning implies a higher level of vertical integration. Kim and Hwang (1992) argued that if an environment in a host country is uncertain and unpredictable, firms apparently hesitate to commit themselves too much as they may lose their strategic flexibility. Brothers (2002) also concluded that firms tend to prefer JVs when entering countries characterized by high investment risks.

Previous studies (e.g. Bell 1996; Benito 1995; Mutinelli & Piscitello 1997; Brouthers 2000; Cristina & Esteben 2002; Brouthers & Brouthers 2000; Tahir & Larimo 2006) suggest that firms under high levels of risks in host countries are likely to choose low control ownership modes. Anderson and Gatignon (1988) used a sample data from the Harvard Multinational Enterprise Project embracing 1267 foreign subsidiaries set up in 87 countries by 180 US firms between 1960 and 1975, and found that firms are most likely to opt for JV when undertaking an investment in high-risk countries. Bijur (1995) argued that the levels of risk in the host country place a firm's assets at a heightened risk and, consequently, firms cannot afford to lose them or render them unproductive. Hence, a JV is a more flexible option that makes it easier to withdraw from a market in the event of deterioration in operating conditions. In short, much of the reasoning above suggests a negative association between target country risk and WOS entry mode, this relationship has received a lot of empirical support (Gatignon & Anderson 1988; Kim & Hwang 1992; Osborne 1996; Aulakh & Kotabe 1997; Contractor & Kundu 1998; Azofra & Martinez 1999; Luo 2001; Brouthers 2002; Nakos et al. 2002; Brouthers & Brouthers 2003; Pak & Park 2004).

The investment risk in Ghana is much higher than that of developed countries. This argument is based on the fact that institutional structures are not well developed as compared to advanced countries. Ghana is a young democratically governed country. However, the environment may be considered risky in comparison to developed countries. Thus, foreign firms that set up subsidiaries in Ghana are likely to opt for cooperative modes of ownership. Based on the above information we propose that:

H20 There is a negative relationship between perceived investment risk and WOS mode of ownership.

5.2.3 *Cultural distance*

Hofstede (2001) argued that culture provides a challenge for the firms in terms of how to deal with the cultural distance within individual markets as well as across markets. Randoy and Dibrell (2002) suggest that cultural distance generates additional costs related to information collection and communications, making internalization difficult. In addition, Palenzuela and Bobillo (1999) stated that cultural distance induces foreign enterprises to seek local support with the aim of facilitating product adaptation, risk sharing and mistake avoidance. Furthermore, Madhok (1997) argues that cultural distance hinders the transfer of firm-specific routines, making collaboration more attractive than hierarchy. Also, Gatignon and Anderson (1988) argued that under conditions of high cultural distance, MNEs may require greater flexibility, resulting in preferences for modes of entry with lower control, such as licensing or a joint venture. Morschett et al. (2010), claims that cultural distance increases the risk of operating in a certain market and of the loss of company resources. Hence, cooperative entry mode can serve as a risk-reduction strategy (Gatignon & Anderson 1988; Erramilli 1991; Tihanyi et al. 2005). Kim and Hwang (1992) argued that when confronted with disparate sales philosophies, languages, customs and lifestyles, foreign investors will tend to choose a lower-control entry mode to avoid conflicts with local actors and to increase the flexibility of business arrangements, particularly if they consider the contingency of withdrawal from the area when the business fails.

Hennart and Larimo (1998) examine the impacts of the distance in cultural scores between the home countries (Japan and Finland) and the host country (U.S.A.) on ownership preference. They use two national cultural indices developed by Hofstede (1980). The two national cultural indices are Power Distance Index (PDI) and Uncertainty Avoidance Index (UAI). The result shows that, as the degree of cultural distance increases, a foreign investor is more likely to form a JV to obtain the knowledge from its local partners. As a result, the greater the cultural distance between the home and host country, related to culture and business practices, the greater the likelihood of entry through low-involvement resource commitment modes (Gatignon & Anderson, 1988; Kogut & Singh, 1988; Kim & Hwang, 1992; Anand & Delios 1997; Mutinelli & Piscitello 1998; Makino & Neupert 2000). In addition, Sun (1999) and Wei et al (2005) found a negative relationship between cultural distance and choice of WOS.

Several studies have shown that joint venture is preferable to a wholly-owned subsidiary when cultural distance is large (see e.g. Anderson & Coughlan, 1987; Brouthers & Brouthers, 2000; Kim & Hwang, 1992; Brouthers & Brouthers 2003; Padmanabhan & Cho 1999; Evans 2002; Cristina & Esteban 2002; Leung et al.

2003; Quer, Claver & Rienda 2007). Ghana's business culture is different from that of the developed Western countries. It is therefore expected that foreign firms wishing to set up subsidiaries in Ghana will use the JV mode of ownership. All these arguments lead to the conclusion that cultural distance will be associated with the adoption of an entry mode that implies lower resources commitment. Based on the above information we propose that:

H21 There is a negative relationship between perceived cultural distance and WOS mode of ownership.

5.3 Internalization specific and transaction cost

5.3.1 *Contractual risk*

Dunning (1993), describes some of the internalization advantages as follows: minimizing negotiation and transaction costs, ensuring adequate quality control, avoiding the risk of dissipation of knowledge, and avoidance of property right enforcement costs. The internalizing of international operations comes at a cost. These costs must be compared with the costs of finding and maintaining an external relationship to perform the same functions in the international markets. These internalization advantages represent the motivations behind the firm's decision to internalize its foreign markets. The effect of the internalization advantage suggested that firms will refrain from entering a country if the perceived risk of dissipation of knowledge, risk of deterioration of quality of services, and cost of writing and enforcing contracts are high. This is particularly critical for firms that have specialized knowledge, protection of which must be an important priority (Hill, Hwang & Kim, 1990).

Lack of protection would make the sharing of specialized knowledge risky in the long run particularly since it would limit the flexibility a firm has in adapting to future contingencies. Since a flexible arrangement is difficult to achieve in a contractual setting, a firm that has specialized knowledge will be expected to opt for an internal organization. On the other hands when the contractual risks are low a firm may be more willing to share its specialized knowledge. This is because as the risk of dissipation falls, the opportunity for mutually beneficial contractual arrangements increases at the expense of an internal market (Rugman 1981). In developing countries, institutions such as transparent and efficient government, property protection regimes and enforceable contracts are often quite weak (Cuervo-Cazurra & Genc 2008). Ghana has promulgated laws to protect intellectual property rights. However, the implementations of such laws have not been as

stringent as might be found in advanced countries. Therefore, there are relatively high contractual risks in Ghana compared to the advanced countries. Based on the above information we propose that:

H22 There is a positive relationship between perceived contractual risk and WOS mode of ownership.

5.3.2 *Proprietary assets*

Hennart (1998) argued that transaction cost theory laid emphasis on the significance of proprietary assets possessed by companies. These assets in general include a firm's proprietary knowledge, products, processes, brand name, product differentiation, marketing skills, etc., and are difficult to transfer in an imperfect market. The transaction cost theory stresses the efficiency of using high control modes in the presence of intangible assets. Buckley and Casson (1976) argued that the existence of transaction costs in markets provides a reason to organise international transactions inside the boundaries of the firm through wholly owned subsidiaries. Hence, internalization will prevent these assets being exploited by third parties (protection against opportunistic behaviour by partners or licensees), or it will ensure that the operation develops in accordance with the standards demanded by the parent company (protection against the local partner's incapacity to execute correctly the routines and procedures required). A number of studies have provided empirical evidence about this relationship (e.g. Chen & Hu 2002; Gatignon & Anderson 1988; Gomes-Casseres 1990; Brouthers & Nakos 2004). In addition, the tacit nature of knowledge makes its valuation and transfers a complex process, since it is impossible to reveal this knowledge to a buyer without diminishing its value. At the same time, there is a high risk of opportunistic behaviour from both buyers and sellers due to the ease with which non-codified information can be under or overvalued (Madhok 1998). Agarwal and Ramaswami (1992) suggest that the absence of protection mechanisms means that it is risky for a firm to share specialised knowledge, especially because this may limit its flexibility in adapting to future possible changes.

Past studies (e.g. Larimo 2000; Brouthers & Brouthers 2003; Cho & Padmanabhan 2005; Tahir & Larimo 2006; Yung-Heng & Yann-Haur 2009; Chiao et al. 2010; Lee 2009; Slangen & Hennart 2008; Demirbag 2007) have shown that technologically intensive firms prefer WOS mode of ownership. They tend to select equity-based entry modes as a control mechanism to safeguard their proprietary knowledge (Brouthers & Brouthers 2003; Gatignon & Anderson 1988; Kim & Hwang 1992). Anderson and Gatignon (1986) put forward detailed relationships among fundamental constructs of control, commitment of resources, and

risk. They recommend that high control entry modes are more efficient for products that are highly proprietary, unstructured, ill understood, highly customized to a user or in introductory and growth stages. Their propositions were in line with Teece's (1986) argument that greater complexity will lead to high control entry mode since the complexity is a proxy of the ill-understood, unstructured nature of the products. It is agreed among researchers that high knowledge content, especially its tacitness, exposes the investing multinationals to more risk and, as a result of that, a high control entry mode, i.e. wholly owned subsidiary is more efficient (Hill, Hwang & Kim 1990; 1996).

Transaction cost theory assumes that because of bounded rationality (agents cannot work out a contract that covers all possible situations) and opportunism (the contract is difficult to enforce because the agents cheat), markets fail. Market failures create transaction costs. The high costs incurred by companies transferring proprietary assets lead them to internalize markets. Hence, when transferring their proprietary assets overseas, multinationals are more likely to select a high control mode. This line of reasoning is particularly true for multinationals' entry mode decisions in Ghana, where intellectual property protection is weaker than in developed Western countries. Ghana is still developing its legal systems, and sometimes the intellectual property protection law is difficult to enforce. Based on the above information we propose that:

H23 There is a positive relationship between proprietary assets and WOS mode of ownership.

5.4 Impact of Motives on Ownership Modes

5.4.1 *Market-seeking and ownership mode*

A country attracts market-seeking investment based on factors such as market size, per capita income and market growth. Agarwal and Ramaswami (1992) argued that in a huge potential market, foreign firms tend to prefer WOSs so that they can obtain scale economies, hence reducing cost and also to establish a long-term market presence. Foreign firms invest in countries with large market sizes to capitalise on ownership-specific assets. Foreign firms also expect to gain valuable skills and large economies of scale by acquiring intangible assets like market knowledge and expertise (Kang 2010). Hence, the bigger the size of the host-country market, the more likely it will attract high levels of FDI. Firms enter a high-potential market with a higher resource's commitment that will allow more control to effectively penetrate the market. Root (1994) argued that a low and

uncertain sales potential of a target market will attract low commitment entry mode. However, the results of Sanna-Randaccio (1990) indicated that there is a positive relationship between market size and ownership structure. Based on the above information we propose that:

H24 There is a positive relationship between market-seeking FDI's and a WOS mode of ownership.

5.4.2 *Resource seeking and ownership mode*

Resource-seeking firms aim to access specific resources in the host country at lower cost levels as compared to what they achieve in their home countries (e.g. Galan, González-Benito & Zuniga-Vincente 2007). They strive for achieving cost advantages in the host-country environment, for example, through lower labour cost or advantages in cost and the availability of raw materials (Dunning, 1998). Resource-seeking investors aim to explore the comparative advantages of individual countries, such as favourable access to raw materials, parts and components, and low costs of labour (Brouthers, Werner & Wilkinson 1996; Dunning 1993a; Cantwell 1991). Less developed economies normally are characterised by lower cost structures and often offer high investment incentives to attract foreign investors. Resource-seeking investments are primarily undertaken to minimise production costs and/or to secure sources of supply. The reason may be to allocate production resources in countries where factor prices are low relative to a firm's productivity (Randoy 1994) and where it can serve foreign markets by exports (Kumar 1994).

Anderson and Fredriksson (1993) argued that resource-seeking investors are normally export-oriented and less dependent upon access to any particular country. Foreign firms from advanced economies that enter the Ghanaian market in search of resources like cheap labour or raw material are likely to be involved in joint ventures because of the preference of the government. This is because most of the resource-controlling firms in Ghana are owned by the state; the government may not be willing to give everything out to foreign investors. Most of the time, the government tries to hold some proportion of the company, and this ends up becoming a joint venture project between the state and the foreign investors. Based on the above information we propose that:

H25 There is a negative relationship between resource-seeking FDI's and WOS mode of ownership.

5.4.3 *Efficiency- seeking and ownership mode*

Sethi et al. (2003) argues that the efficiency-seeking motive has to do with the search for locations that offer low-cost factors of production and scale economies. Dunning(1993) argued that the intention of the efficiency-seeking MNE is to take advantage of different factor endowments, cultures, institutional arrangements, economic systems and policies, and market structures by concentrating production in a limited number of locations to supply numerous markets. The main aim of efficiency-seeking investors is to rationalize their production, distribution and marketing activities through common governance of and synergy-building among geographically dispersed operations. Dunning (1993) argued that the rationalization essentially stems from two sources: the advantages of differences in the cost of factor endowments between countries and the economies of scale and scope. This explains much of the division of labour within firms producing in both developed and developing countries, with capital, technology and information intensive value-added activities being concentrated in the former, and labour and natural resources intensive activities in the latter (Gorynia et al. 2006).

Similarly, Dunning (1993) argued that efficiency-seeking firms aim to capitalize on the advantages of the common ownership of a network of activities and capabilities in diverse environments. Efficiency-seeking MNEs from developed economies tend to come from countries where labour costs have become relatively high and force those MNEs to enter other developing countries to take advantage of cheaper labour (Giroud 2004). In order for efficiency seeking foreign production to take place, cross-border markets must be both well-developed and open, hence it often flourishes in regionally integrated markets (Dunning 1993). In accordance with this argument above, the Sub-Sahara Africa cross-border market is not well developed as in the case of the developed world; therefore, efficiency-seeking FDI firms in Ghana are more likely to opt for a joint venture instead of a wholly owned subsidiary. Based on the above information we propose that:

H26 There is a negative relationship between efficiency-seeking FDI's and a WOS mode of ownership.

5.5 Summary

The main goal of this chapter was to examine the determinants of MNE's choice between WOS and the JV mode of ownership. It theoretically reviews how different ownership-specific, location-specific, internalization and transaction cost specific and strategic advantages influence the ownership mode strategies of the foreign manufacturing units in Ghana. The determinants of ownership mode strate-

gies have been categorized into different groups: First, ownership specific advantages which include firm size and international experience. Second, location-specific advantages, which consist of market size, country risk and cultural distance. Finally, internalization specific and transaction cost theory which is made up of contractual risk and proprietary assets.

Based on the literature review, it is expected that a firm's size and the firm's international experience will increase the probability of foreign firms choosing WOS over the JV mode of ownership in Ghana. It is expected that perceived market size will increase the probability of foreign firms choosing WOS modes of ownership. While perceived cultural distance and perceived country risk will lead to an increase in the probability of foreign firms choosing JV modes of ownership in Ghana. Furthermore, with regards to internalization specific and transaction cost specific factors, it is expected that, perceived contractual risk will increase the probability of a foreign firm choosing WOS modes of ownership. Besides, proprietary assets of foreign firms will increase the probability of a foreign firm choosing WOS modes of ownership in Ghana. Examining these factors therefore helps in understanding the factors that influence the ownership mode strategies of foreign manufacturing units in Ghana. This analysis will not only add to our understanding of the transaction cost and eclectic paradigm but also broaden our knowledge of FDI in general. Table 6 provides a summary of previous empirical studies on the ownership mode.

Table 6. Empirical findings of the past studies of ownership mode

Variables	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27
International experience	-															+			+		+						
Low cultural distance				+						-	+							-		-							
Target country experience																								+			
Country risk and environmental uncertainty																			-								
Large firm size		+							+			+								+						+	
Large market size/market potential						+									+							+					+
R & D			+					+																			
Low level of country risk									+																		

+ means increases the probability of choosing WOS- means increases the probability of choosing JV N.S means the variable is not significant

1 Shetty (1979) 2 Kogut & Singh (1985) 3 Hennart (1987) 4 Anderson & Coughlan (1987) 5 Kumar (1990) 6 Senna-Randaccio (1990) 7 Root (1994) 8. Phatak et al. (1996) 9 Makino & Delios (1996) 10 Madhok (1997) 11 Hennart & Larimo (1998) 12 Padmanabhan & Cho (1999) 13 Larimo (2000) 14 Senna-Randaccio (2001) 15 Chung & Enderwick (2001) 16 Haq (2001) 17 Nakos & Brouthers (2002) 18 Eicher & Kang (2002) 19 Cristina & Esteben (2002) 20 Evans (2002) 21 Larimo & Tahir (2002) 22 King & Tucci (2002) 23 Leung et al. (2003) 24 Suhk Pak & Ryeol Park (2004) 25 Wei et al. (2005) 26 Claver & Quer (2005) 27 Brouthers & Brouthers (2006) 28 Yung-Heng, L. & H. Yann-Haur (2009) 29 Aslan & Larimo (2010).

6 PERFORMANCE OF FOREIGN UNITS

This chapter theoretically investigates how ownership-specific factors, location-specific factors, establishment mode and ownership choice influence the performance of the foreign firms in the context of Ghana. Each of the above-mentioned factors is reviewed in detail in different subchapters. Based on the reviewed literature on performance, several hypotheses are developed regarding the component of the ownership-specific factors, location-specific factors, establishment mode, and the ownership type. This chapter goes beyond the examination of only entry modes of performance, and also examines variables under ownership-specific factors and location-specific factors of performance at the subsidiary level in the context of Ghana.

6.1 Performance measurement

The performance evaluation of foreign subsidiaries has been an important topic for both researchers and practitioners (Schmidt & Kretschner 2010). There are various approaches to how FDI performance is measured. Performance evaluation is essential for revealing a true picture of subsidiaries' activities: it can make headquarters aware of successful developments as well as unsuccessful ones. Various performance measures exist which have been categorized in numerous ways by different authors (Neely et al. 1995). Despite the heterogeneity of performance measures, an often used and widely accepted distinction is the distinction between quantitative and qualitative performance measures (Blau & Scott 1963; Grüning 2002; Pun & White 2005). Most quantitative measures are considered to be objectively measured, while qualitative measures imply a certain degree of subjectivity. Owing to their nature, qualitative criteria are usually more difficult to measure than quantitative criteria (Pun & White 2005).

Quantitative measures can be non-financial or based on financial data (Fisher 1992). Within financial measures, two groups are frequently distinguished (Gladden 2003; Ittner & Larcker 1998): on the one hand, traditional, accounting-based measures such as profit and return on investment and, on the other hand, value-based measures such as economic value added (EVA) or cash flow return on investment (CFROI). Financial performance measures includes overall profitability (indicated by ratios such as return on investment, return on sales, return on assets, and return on equity), earnings per share, stock price (Chowdhury 1992; Li 1995; Delios & Beamish 2004; Chung & Beamish 2005; Mudambi & Zahra 2007; Xu & Lu 2007). Non-financial performance measures are often grouped into two

categories – internally determined measures or externally determined measures (e.g. Keegan et al. 1989; Neely et al. 2000). For instance, while productivity is an internal non-financial measure, market share is interpreted as an externally assessed measure. Other studies have used different approaches by measuring performance through ex-ante or expected performance versus ex-post or realized performance. The first category has used stock market reactions to FDI announcements as an index of performance (e.g. Morck & Yeung 1992; Markides & Ittner 1994; Chen, Hu, Chen & Shieh 1992; Datta & Puia 1995; Merchant 1995). The other one is the realized performance which is the function of two broad sets of factors: strategy of the parent and the characteristic of the environment in which the venture operates. These broad factors are consistent with the strategy literature (e.g. Andrews 1971; Porter 1980) which argues that an appropriate firm strategy and a favourable external environment are the two key factors impacting performance.

Qualitative criteria used for performance evaluation can again be classified into either internal qualitative criteria (such as employee satisfaction) or external qualitative criteria (such as customer loyalty) (Gregory 1993). Qualitative criteria are subjective because they are based on the person's judgments or perception. Examples of subjective measure include achievement of goals, and perceived overall performance relative to competitors. Subjective measures have been used by many scholars in measuring performance in international business studies (e.g., Woodcock et al. 1994; Nitsch et al. 1996; Andersson et al. 2001; Beamish & Lee 2003; Delios & Beamish 2004). In this study, subjective measures are used, and thus the firm's performance is measured on the basis of the perceptions of subsidiary managers. Merchant, Stringer and Theivananthampillai (2010) emphasize that subject measures can be better than quantitative measures in many ways. According to them, quantitative measures are not necessarily more objective; in fact they can even distort the performance picture. Many quantitative performance measures might be skewed over the short term, and one needs deep contextual knowledge to understand their implications. It is argued that subjective measures based on management perceptions enable managers to say exactly how performance is impacting their business and to reflect on the total picture of performance. On the other hand, with subjective responses, some managers may inflate performance or even deflate performance in order to give a certain biased impression. It is also possible that managers do not have a clear picture of performance (Merchant et al. 2010).

6.2 Ownership-specific factors

6.2.1 *Firm size*

Firm size has been considered an important source of strategic advantage since it can allow the firm to realize economies of scale and scope and access to resources denied to smaller firms. Large firms usually possess vital assets and oligopolistic advantages, as their dominant positions have been attributed to their intensive investments in advanced technology, product differentiation and extensive advertising (Siripaisalpipat & Hoshino 1999). Previous studies (e.g. Brouthers 2002; Brouthers & Werner 2003; Pangarkar & Lim 2003) argued that transaction cost predicts that there is a relationship between the size of parent firm and performance. This is because large investors can commit a significant amount of resources, which might lead to greater synergies (Pangarka & Lim 2003) in turn influencing parent firm affiliate. Moreover, Glaister and Buckley (1999) argued that large MNEs with global reach and an integrated network may also facilitate a more effective supply chain thereby enhancing the cost effectiveness of operations and hence leading to better performance. Empirical support to the above views was gives e.g. by the results of Pangarkar and Lim (2003). Based on the above argument we propose that:

H27 There is a positive relationship between parent firm size and FDI performance.

6.1.2 *Firm's international experience*

Davidson (1980) argued that a parent firm's experience in the foreign market is critical for international expansion and, consequently, can have significant effects on the performance of foreign subsidiaries. Johanson and Vahlne (1977) stated that the parent firms' experience in operating overseas subsidiaries can be transferable to subsidiaries in different countries, because managers may build organizational routines that allow firms to efficiently expand abroad in many markets (Westney, 1998; Madhok, 1997). These arguments are based on the fact that operational experience in foreign markets can be accumulated at the firm level as well as the subsidiary level. Hence, the accumulation of experience helps the parent firm to increase know-how of doing business in the foreign market and, consequently, can reduce operational uncertainties (Johanson & Vahlne 1977). Gagnon and Anderson (1988) argue that firms with lack of experience in the international setting are not capable of managing subjectively, monitoring appropriately, and assessing inputs in lieu of outputs.

Kim et al. (1993) argue that the more multinational the firm is, the better it can leverage strategic resources and diversify market risks, and, thus, the better it can perform. This is because, as a firm expands its operation overseas, it learns more about how to cope with different environments in terms of economic, political and legal systems, as well as the perceived psychological distance. These learning skills can be applied to new foreign investment opportunities. Barkema and Vermeulen (1998) argue that when firms make international investments, specific knowledge of the host country is gained together with more general knowledge of conducting international operations. Hence based on the above-mentioned viewpoints, we propose that:

H28 There is a positive relationship between the international experience and FDI performance.

6.3 Location-specific factors

6.3.1 *Market size*

The market size of the host country is an important determinant of the MNE's performance. Brouters (2002) found that there is a relationship between market potential and MNE performance. Agarwal and Ramaswami (1992) also suggest that firms tend to utilize WOSs rather than IJVs in the host countries with large market size. There are fixed costs associated with FDI, which are easier to deal with when spread over a larger volume of output. The larger the market, the greater the reduction in the marginal costs of producing abroad and the more likely the firm is to invest in that location rather than resort to exportation (Buckley & Dunning 1976). In a small market, firms may find that fewer integrated modes provide better opportunities either because (1) they do not increase the capacity in the market, hence not impacting competitor pricing strategies as severely, (2) can provide a better return on investment by minimizing the resource commitment, based on lower expected returns, or (3) reduce the switching costs of market exit if product/ service sales are low (Kim & Hwang 1992). Ghana is a medium-sized African country and the second largest population in West Africa. The country is a key player in the Economic Community of the West African States (ECOWAS) region where there is expected to be free movement of goods and services with a population of more than 250 million in the next decade. Investors looking for better performance will be attracted to Ghana market based on the regional market and not only the size of the Ghanaian market. Hence, based on the above viewpoint we propose that:

H29 There is a positive relationship between perceived market size and FDI performance.

6.3.2 *Cultural Distance*

A growing number of studies consider cultural distance in the MNE portfolio of operations an important predictor of performance (Luo & Peng 1999; Palich & Gomez-Mejia 1999; Mulok & Ainuddin 2010). The greater the cultural distance between home and host countries, the greater the differences in management practice, and the more difficult it becomes to integrate the unit with the parent. Luo and Peng (1999) argue that high cultural difference tend to lead to intra-organizational conflicts and poor carrying out of organizational actions, either resulting in inconsistencies in values and institutions between home and foreign market operations. Furthermore, previous studies (e.g. Egelhoff 1982; Schneider & DeMeyer 1991), argue that high cultural distance limits MNE performance due to increased training, monitoring, and control costs, as well as differences in managerial cognition of environmental and organizational issues. Li and Guisinger (1992) argue that, at the extreme, cultural differences may lead to differences in investment preferences between partners, resulting in the failure of foreign operations of MNEs. Luo and Peng (1999), found a negative relationship between cultural distance and MNE performance, while some of other studies have found a positive effect (e.g. Morosini et al. 1998). Park and Ungson (1997) argue that managing portfolios of foreign operations with higher cultural distance often associates with increased transaction and operating costs, resulting in higher survival hazard among MNEs. Thus, based on the above information, we propose that:

H30 There is a negative relationship between perceived cultural distance and FDI performance.

6.3.3 *Host country risk*

Agarwal and Ramaswami (1992) argue that host country risk reflects uncertainty about the continuation of current economic and political conditions and government policies that are deemed to be critical to the survival and profitability of firm operations in that country. Furthermore, Ahmed et al. (2002) emphasized the importance of the political risk and the uncertain dimension of MNEs' operations and performance. Bijur (1995) argue that levels of risk in the host country place a firm's assets at a heightened risk - firms cannot afford to lose them or render them unproductive. By and large, a country that is economically and politically unstable has a high level of risk associated with FDIs made. An extremely unpredictable

ble environment will result in firms that want to minimize exposure to risk through entry methods that offer the necessary flexibility in the face of environmental risk (Erramilli & D'Souza 1995; Kim & Hwang 1992). In general the perceived country risk in Ghana is assumed to be clearly higher than e.g. OECD countries and in several emerging economies because of the less developed institutional structures. Based on the above viewpoints, we propose that:

H31 There is a negative relationship between perceived country risk and FDI performance.

6.4 Establishment mode and performance

The FDI can be made using either greenfield investment or acquisition mode. Several studies (e.g. Woodcock et al. 1994; Li 1995; Nitsch et al. 1996; Hennart et al. 1998) argue that the performance of Greenfield investments should be systematically better than that of acquisitions. Greenfield FDI is a particular form of market penetration and generally MNEs consider this choice when their firm-specific advantages are well-built enough to cover the additional transaction costs arising from operations in the foreign market, and when location advantages are great. Greenfield investment also provides improved possibilities to build the operations step-by-step following the local market situation.

Regarding acquisitions-related advantages it may be stated that in cases where the foreign company acquires an existing local firm that is well-established in the market the investing firm may then try to combine the subsidiary's advantages with its own core abilities, thereby augmenting its overall firm specific asset (Dunning 2000). The new combined entity may then be able to use these synergies to better overcome the transaction cost barrier and to improve its position on the local market (e.g. Anand & Delios 2002; Dunning 2000). Also, acquisitions have been considered less risky than greenfield investments (Caves 1996) because making an acquisition means buying a going concern with a proven track record (Penning et al. 1994; Hill & Jones 1998), established suppliers and customers, and managers familiar with the industry and local market conditions (Caves, 1996). All these factors reduce the uncertainty about the subsidiary's future income (Hill & Jones 1998; Caves 1996). Furthermore, Larimo (2003) argues that greenfield investments need more time for planning, construction and market positioning than takeovers, and as a result may lose a lot of time before they can develop their operations. There is wide empirical evidence that although there are several advantages associated with acquisitions they also appear to be risky, and a great proportion of acquisitions do not reach the goals set for them. Several stud-

ies also indicate better performance in greenfield investments than in acquisitions, especially in cases of high cultural distance and highly uncertain markets. Based on the above we propose that:

H32 There is a positive relationship between the greenfield establishment mode and FDI performance.

6.5 Ownership mode and performance

The ownership modes are wholly owned subsidiary (full acquisition) and joint venture (partial acquisition). Prior studies have shown that a relationship exists between ownership mode and firm performance. Anderson and Gatignon (1986) argue that a correct decision on entry mode should improve a company's long-term performance. In the same way, a mode wrongly chosen will lead to high transaction costs and low transaction benefits, conditions under which a venture's performance will suffer (Chen & Hu 2002). It has been argued that performance is relatively independent of ownership mode, since both WOS and JV choice could equally obtain the same results. Previous empirical studies report mixed results on the relationship between the degree of ownership and performance. Chowdhury (1992) found that WOSs performed better than JVs. Similarly, Tan and Yu (1990) found that WOS generated higher profits than JVs. There are also other studies that have drawn similar conclusions (e.g. Brouthers et al. 2000; Nitsch, Beamish & Makino 1996; Woodcock, Beamish & Makino 1994). However, there also many studies which opposite results have been found indicating thus that IJVs have performed better than WOSs (see e.g. Reus & Ritchie 2004; Pan, Li & Tse 1999). Finally, there are also quite many studies like Lim and Pangarka (2003) and Luo (2003) where there is no relationship between ownership arrangement and performance were found. Because quite many studies focusing on FDIs in emerging markets (e.g. Pan, Li & Tse 1999) seem to indicate better performance in IJVs for the possible reason that there is in (several cases) a need for a local partner because of cultural differences and market uncertainty and therefore:

H33 There is a negative relationship between WOS ownership mode and FDI performance.

6.5.1 *Combined effect*

The foregoing discussion implies that we would expect better performance in greenfield investments than in FDIs made in the mode of acquisitions and better

in joint ventures than in wholly owned FDIs. However, we expect that there may be some differences in the impacts when the establishment and ownership mode decisions are analyzed jointly. We expect that joint ventures perform better than WOSs if the investment is made in the mode of greenfield whereas if the investment is made using acquisition modes we expect that WOSs would perform better than joint ventures (partial acquisitions). Our expectation is based on the wide empirical evidence that has indicated acquisitions to be often very problematic because of e.g. management and cultural differences, needed technological transfer, needed integration etc. and these problems are especially high in partial acquisitions (Hennert 1998). Thus we expect:

H34 There is a positive relationship between joint venture ownership in greenfield mode of investment and FDI performance.

H35 There is a positive relationship between WOS ownership in acquisition mode of investment and FDI performance.

6.5.2 *Interaction effect*

As discussed earlier, researchers have argued that international experience has a positive impact on performance. International experience provides a firm with knowledge and resources that it can use to improve performance (Johanson & Vahlne 1977; Gatignon & Anderson 1988). On the other hand scholars have argued that high level of risk negatively affect performance by increasing barriers and creating high miscellaneous costs as firms try to guard against unexpected occurrences like loss of investments (Kobrin 1976; Erramilli & D'Souza 1995; Kim & Hwang, 1992). Also, it has been argued that high cultural distance affect performance negatively (e.g. Luo & Peng 1999; Palich & Gomez-Mejia 1999). Our expectation is based on the empirical evidence that has indicated international experience positively impacts on performance. Therefore we expect that the MNEs with extensive international experience operating in a high risk and high cultural distance country will positively moderate the negative impact of cultural distance and country risk on subsidiary performance. Based on the foregoing literature review the following hypotheses have been formulated:

H36 International experience positively moderates the impact of perceived country risk on FDI performance

H37 International experience positively moderates the impact of perceived cultural distance on FDI performance

6.6 Summary

This chapter theoretically reviews how different ownership-specific, location-specific, establishment and ownership mode factors influence the performance of foreign manufacturing units in Ghana. It also reviews how the interaction between ownership specific factors and location specific factors affect the performance of foreign subsidiaries. With regards to ownership specific factors which consist of firm size and international experience, it is expected that large firm size and extensive international experience will increase the performance of foreign subsidiary firms in Ghana. With regard to location-specific factors which are made up of the market size, culture distance and host country investment risk, it is expected that large market of the host country will increase the performance of the foreign subsidiary firm in Ghana. In contrast, it is expected that cultural distance and the host country risk will decrease the performance of the foreign subsidiary firms in Ghana. In the case of establishment mode and ownership mode, it is expected that the greenfield entry mode and joint ventures mode of ownership will increase the performance of the foreign subsidiary firms in Ghana. In addition, it is expected that, the combined effect of greenfield JV will lead to increase in performance of foreign subsidiary firms. This analysis will not only add to our understanding of the ownership specific factors, location specific factors and entry mode's choices and its effect on performance of foreign subsidiary in the context Ghana but also broaden our knowledge of FDI performance of subsidiaries in general. Table 7 summarize empirical results of previous studies on FDI performance.

Table 7. Empirical findings of the past studies of FDI performance

Variables	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	
R&D	+						+		-	+											-				
WOS vs. IJV		+		+		-		+															-		
IJV vs. ACQ		+																							
Greenfield vs (ACQ & IJV)			+	+			+																+		+
Time of entry																									
Target market experience						+																			
International experience							+			+	+		+	+											
High market potential								+																	
Parent size												+				+	+	+							
Cultural distance																			-		+				

+ = increasing probability for performance; - = Decrease probability of Performance; WOS vs. IJV (+) = wholly owned subsidiary (WOS) performs better than International Joint Venture (IJV); WOS vs. IJV (-) = International Joint Venture (IJV) performs better than wholly owned subsidiary (WOS); IJV vs. ACQ = IJV performs better than Acquisition; Greenfield Vs. (ACQ& IJV) = Greenfield performs better than Acquisition and IJV.

1 Lecraw (1983, 1984) 2 Woodcock et al. (1994) 3 Li (1995) 4 Nitsch et al. (1996) 5 Makino & Beamish (1998) 6 Pan & Chi (1999) 7 Sirpipaisalpat & Hoshino (2000) 8 Brouthers (2002) 9 Lu & Beamish (2004) 10 Fang et al. (2007) 11 Ogasavara & Hoshino (2009) 12 Ghahroudi (2011) 13 Sirpipaisalpat & Hoshino (2000) 14 Fang et al. (2007) 15 Ogasavara & Hoshino (2009) 16 Brouthers (2002) 17 Brouthers & Werner (2003) 18 Pangarkar & Lim (2003) 19 Luo & Peng (1999) 20 Morosini et al. (1998) 21 Dikova (2005) 22 Reus & Ritchie (2004) 23 Nitsch et al. (1996) 24 Hennart et al. (1998)

6.7 Research model of the study

The eclectic paradigm proposes that three types of firm level advantages influence cross-border business activities: ownership specific advantages, location-specific advantages and internalization advantages: Ownership-specific advantages include various tangible and intangible assets owned by the investing firm, whereas transaction-specific advantage include variables related to the ability of firms to capture the transactional benefits from the common governance of multiple and geographically dispersed activities. Location-specific advantages are essential in determining where firms will engage in cross-border value adding activities. Dunning (1980) argued that a company will engage in international production when each of the three following conditions are present. A company possesses certain specific advantages not possessed by competing companies of other nationalities (ownership-specific advantages) and such advantages are most suitably exploited by the company itself rather than by selling or leasing them to other companies. In other words, the company internalizes the use of its ownership-specific advantages; and it must be more profitable for the company to exploit its assets overseas, rather than in domestic locations. Hence, location-specific factors play an important role, in combination with internalization of ownership-specific advantages, in determining whether or not and where overseas production occurs. The above factors have been found to influence the behaviour of the foreign firm's internationalization process.

Building on the insights from the eclectic paradigm and transaction cost theory, the analytical framework of this study suggests that a firm's internationalization process will be influenced by the ownership-specific factors, location-specific factors, internalization and transaction cost factors. The research model of this study is presented (see Figure 2). In the model, the independent variables for ownership specific factors are: firm size and international experience; independent variables for the location specific factors are: market size, cultural distance and country risk; and variables for internalization and transaction cost specific factors are: proprietary assets and contractual risk. The dependent variables for the motives are: market seeking, efficiency seeking, and resource seeking; the variables for the establishment mode are: acquisition and greenfield; and the variables for ownership mode are JV and WOS. The final dependent variable is overall performance. The control variables are: incentives, product relatedness, target country experience, timing of entry or age of the unit, historical ties (UK / other countries), and competition. Finally interaction relationships are tested with the following: joint effects of firm size and perceived market size; joint effects of international experience and perceived host country risk; joint effects of international experience and perceived cultural distance and combined effects of establishment mode and ownership mode on FDI performance. Thirty seven hypothesized relationships are illustrated in the model. The positive hypothesized relationships are indicated with a plus sign and vice versa.

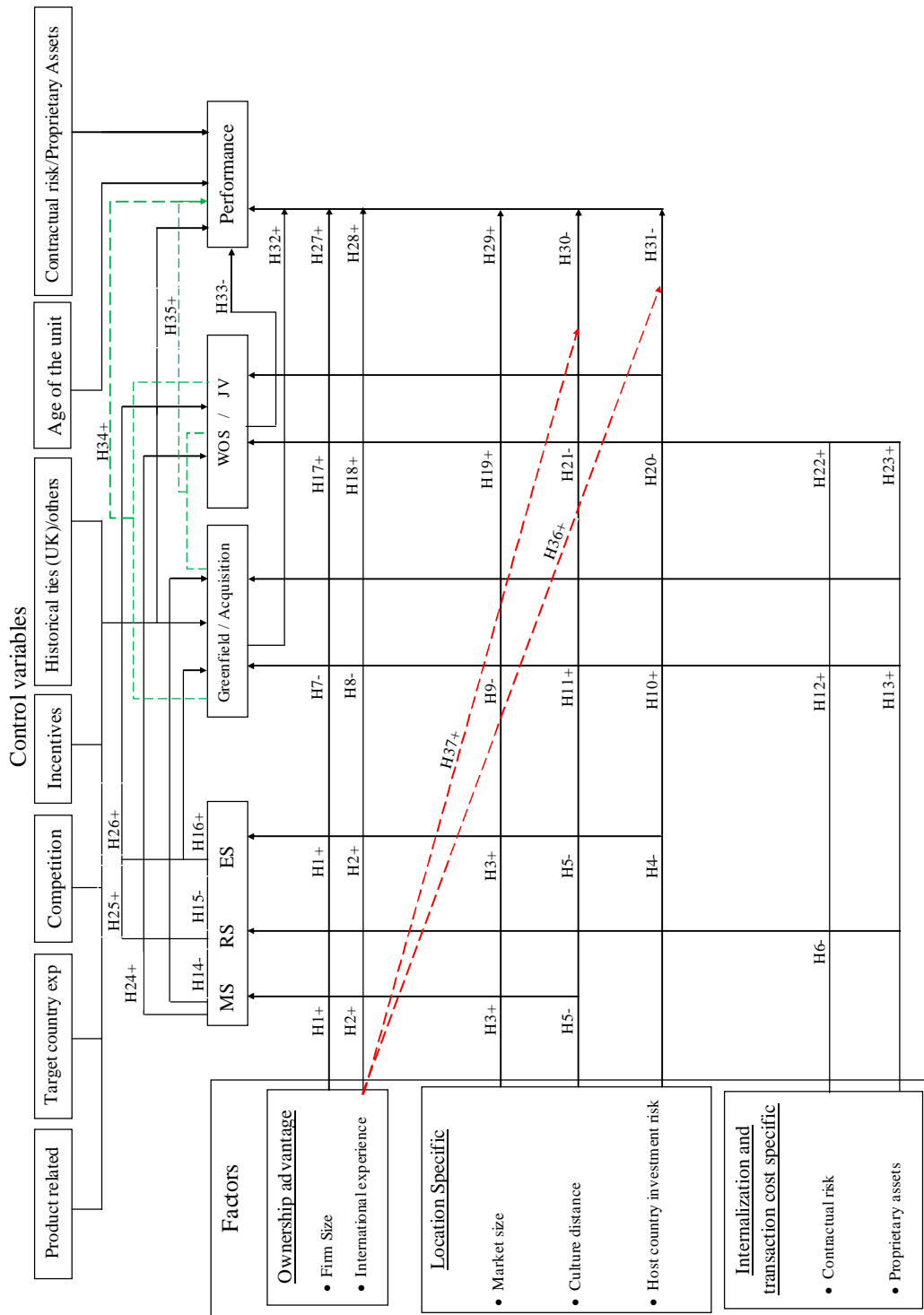


Figure 2. Research model of the Study

7 METHODOLOGY AND THE SAMPLE

In this chapter, the methodology of the study and the characteristics of the participating firms are reviewed. It provides a discussion of the sample, an overview of the statistical procedure used, and descriptive statistics. In addition, the population of the firms and the type of investment in the sample has been discussed. Finally, the operationalization of the independent variables, dependent variables, and control variables related to a motive, establishment mode, ownership mode and performance aspects are also been presented in this chapter.

7.1 Research methods

The study employs quantitative methodology because it is helpful when trying to develop knowledge about cause and effect, reduction to specific variables, hypotheses development, use of measurement and testing (Creswell 2003). Quantitative research has its roots in the natural sciences and is concerned with carrying out investigations based on observable and measurable events in a way that can be repeated by other researchers. In other words, quantitative research employs the use of deductive reasoning by making use of specific observations, measuring and detecting patterns and regularities, and formulating a hypothesis for testing.

Denzil and Lincoln (2000), describe quantitative research as one that “*emphasizes the measurement and analysis of causal relationships between variables, not processes*”. It usually makes use of various mathematical models, statistical tables, and graphs, and is not concerned with rich descriptions as it may disrupt the process of developing generalized conclusions or theories. Quantitative research builds on previous knowledge and theories in order to answer the research questions (Patel & Davidsson 2003). Its focuses on the reason a situation or behaviour occurs and which cause produces which effects. The researcher then formulates a hypothesis that is tested empirically. A quantitative approach is particularly suitable for this study because this approach works best to identify factors that influence FDI in Ghana. This study uses the five sequential stages proposed by Robson (2002) to conduct scientific research namely deducing hypotheses; expressing the hypotheses in operational terms; testing these operational hypotheses; analyzing the results; and confirming or modifying the theories in accordance with the findings.

The survey method is used for this study because it provides an opportunity to test the existing knowledge in a rigorous manner, and to assess causal relationships (Jick 1979; John & Phil 1997). This method permits a description of the overall

picture of a phenomenon, problem, or issue by questioning a cross section of a population at specific moments in time (Jesson 2001). Furthermore, survey research enhances the generalizability of the results from a sample to a population leading to the ability to infer some characteristics and behaviours of the population (Babbie 1990).

7.2 Data collection

In this section, the data collection is described based on the sample population, the data gathering process and response patterns.

The sample population

The population of the study consists of foreign manufacturing units in Ghana operating as wholly owned or joint ventures from a period of 1994 to 2008. The data for this study was obtained from the Ghana Investment Promotion Council (GIPC). The GIPC acts as a one-stop agency for implementing the regulations concerning foreign investment in the country. The agency database provides information about a country of origin, location of the investment, the sector of operation, the proportion of foreign equity shareholding, total paid-in capital, formation type of the company, date of establishment, and the contact information of the companies. The total number of firms based on the database from Ghana Investment Promotion Council (GIPC) was 390.

Questionnaire

The questionnaire was designed based on the review of the literature. It was designed to capture all the necessary information which is important in answering the research questions. This relates to the following issues: background information about the foreign company, key issues related to the Ghanaian market and the investment motives, entry mode, ownership choice, and the performance of the foreign company. The original version of the questionnaire is presented in Appendix 8.

Data gathering process and response pattern

The population of the study consists of foreign manufacturing units in Ghana established from 1994 to 2008. The names of the companies for this study were obtained from the Ghana Investment Promotion Council (GIPC). The total number of firms based on the database from GIPC was 390. This time frame was chosen because the Ghana Investment Promotion Centre Act was enacted in 1994 to

encourage, promote and facilitate investments in all sectors of the economy, except the mining and petroleum sector. Before this Act, there was no specific organisation responsible for keeping records of investment in the country, hence in order to obtain reliable data with regard to foreign investors in the country, the year 1994 was chosen as a starting point. In addition, the year 2008 was chosen because the data available on FDI in Ghana from the Ghana Investment Promotion Council database was up to 2008 at the time of the data collection.

Prior to sending the questionnaires, firms were contacted by phone in order to check if the information from GIPC was correct for identifying the right respondents to the questionnaire. The following criteria was applied to define suitable respondents: (1) the person should be top management personnel and should have been involved both in the original entry mode decision and the operation after the entry, and (2) foreign ownership of the company should be more than 10 percent of the equity capital. This was considered critical in order to obtain reliable information. After applying the above criteria, foreign firms whose ownership has changed from foreign to local were eliminated from the sample. In addition, foreign firms that had ceased to exist and were still in the database of GIPC were eliminated, which led to final sample of 230 units. The data consists of FDIs made by MNEs from 19 different countries. The questionnaires were personally delivered to the CEO's or top executives of these firms. At the end of data collection period, 75 completed questionnaires were received representing a response rate of 32.60%. The remaining questionnaires which were sent to respondents and not received responses were due to the following reasons. First, the employees who were qualified to give out the necessary information needed were no longer employees of the subsidiary, or had gone back to their respective home countries. Second, some of the companies did not answer the questionnaires because of the company policy not to give out any information concerning the company. The final sample size is comparable to that of other foreign entry mode studies using survey data (e.g. Kim & Hwang 1992: 22%, Harzing 2002: 20%, Slangen 2005: 19.2% and Dikova 2005: 7.5%).

Characteristics of the sample

Out of the 75 samples of foreign firms, 48 (64%) were FDIs made in the form of greenfield investment while 27 (36%) FDIs were made in the form of an acquisition. With regard to the ownership mode, 30 (40%) were FDIs entered through wholly owned subsidiaries and 45 (60%) FDIs entered through joint ventures. Foreign firms with a foreign equity stake equal to or exceeding 95% were considered WOS, whereas those with a lower foreign equity stake were labelled JVs. In terms of the origin of the foreign firms, 19 (25%) of the responses are from firms

originating from the UK, while 56 (75%) are firms from other countries. Of the sample FDIs, 33 (44%) were made in the period 1994-1999 and 42 (56%) between 2000 and 2008. In terms of the origin of the foreign firms, 19 (25%) of the responses are firms originating from the UK, while 56(75%) are firms from other countries. Firms from other countries include 8 firms each from France and Germany (10.6% each); 6 firms from China (8%); 5 firms each from the Netherlands and Italy (6%); and the remaining 24 firms from thirteen different countries (32%). Entry dates of the foreign firms were classified according to two distinct time periods. Of the sample FDIs, 33 (44%) were made in the period 1994-1999 and 42 (56%) were made between 2000 and 2008.

With regard to non-response sample size, out of 155 firms, 67 (43.2%) were FDIs entered through WOS while 88 (56.7%) FDIs entered through a joint venture. In terms of origin of the foreign firms, 19 (76%) of Chinese firms did not respond; followed by 12 (60%) of German firms. The rate for Dutch firms was 11 (68%); the rate for French firms was 11 (58%); the rate for Italian firms was 9 (78%), the rate for British firms was only 10 (34%), and the rate for India. The rest were from seventeen other countries. Of the sample non-respondents FDIs, 61 (39%) were made in the period 1994-1999 and 94 (60.6%) were made between 2000 and 2008. Out of 230 investments made from 25 countries. European sources made up 149 from 13 countries. The remaining investments were made by countries from other parts of the world. See table 8 for investment by various countries.

Table 8 also shows the various countries and their response rate to the questionnaire. Table indicates that the response rate from the European companies investing in Ghana is higher as compared to Asian countries. (e.g. China, Hong Kong, Malaysia, Indonesia, Taiwan). During the data-collecting phase, I realized that Asian companies were not willing to provide information regarding their business operations in Ghana. Sometimes, managers contacted for completing the survey questionnaire gave the excuse that it is against the company's policy to disclose information to outsiders. Another reason why the non-response rate was higher among companies from Asia could be attributed to the issue of transparency. In other words, because of the weak institutional set up in Ghana, most of the foreign companies do not comply fully with the regulations governing their business operational activities. Thus, they fear that disclosing information to outsiders about their operation activities might end up with the tax authorities. As could be observed in Table 8, the European subsidiaries in Ghana are more willing to answer the survey questionnaire about their business operations in Ghana compared to Asia subsidiaries.

Table 8. Investments made by countries

Countries	Total	Respondents		Timing of entry		Non-respondents	Timing of entry	
				1990s	2000s		1990s	2000s
UK	29	19	65.5%	13	6	10	6	4
China	25	6	24.0%	2	4	19	9	10
Germany	20	8	40.0%	3	5	12	5	7
France	19	8	42.1%	4	4	11	8	3
India	18	4	22.2%	2	2	14	5	9
Netherlands	16	5	31.2%	2	3	11	3	8
Italy	14	5	35.7%	1	4	9	2	7
Spain	13	3	23.1%	1	2	10	4	6
Belgium	10	3	30.0%	2	1	7	1	6
Switzerland	8	1	12.5%	0	1	7	5	2
U.S.A	8	3	37.5%	1	2	5	2	3
Greece	8	2	25.0%	0	2	6	0	6
Lebanon	7	2	28.5%	0	2	5	0	5
Portugal	5	1	20.0%	0	1	4	3	1
Indonesia	5	0	-	0	0	5	2	3
Malaysia	4	0	-	0	0	4	3	1
Taiwan	3	0	-	0	0	3	0	3
Hong Kong	3	0	-	0	0	3	2	1
Sweden	3	1	33.3%	1	0	2	1	1
Canada	3	0	-	0	0	3	3	0
Denmark	3	1	33.3%	1	0	2	1	1
South Korea	2	0	-	0	0	2	0	2
South Africa	2	1	50%	0	1	1	0	1
Egypt	1	1	100%	0	1	0	0	0
Hungary	1	1	100%	0	1	0	0	0
TOTAL	230	75	32.6%	33	42	155	65	90

7.3 Data analysis

In line with previous studies, *logistic regression analysis* is employed to examine the empirical data. Logistic regression is employed as a statistical technique because the dependent variable is binary. The independent measures are qualitative or quantitative, and assumptions of multivariate normality do not necessarily have to be met (Ekeledo & Sivakumar 2004). The *binomial logistic analysis* estimates the probability of an event occurring and has been utilized frequently in studies

on foreign establishment mode strategies (Hennart & Park 1993; Andersson & Swensson 1994; Padmanabhan & Cho 1995, 1999; Brouthers & Brouthers 2000; Larimo 2003; Dikova & van Witteloostuijn 2007; Slangen & Hennart 2008; Dikova et al. 2010) and ownership mode choice of MNEs (e.g. Gatignion & Anderson 1988; Padmanabhan & Cho 1996; Hennart & Larimo 1998; Kaynak et al. 2007).

The *binomial logit model* can be expressed as $P(Y_i = 1) = 1 / [1 + \exp(-\alpha - X_i B)]$. Where, Y_i is the dependent variable, defined by a dummy variable either 1 or 0. The value of 1 denotes the probability of an event occurring rather than another as shown by the value of 0. X_i is the vector of independent variables for i th observation, α is the intercept parameter, B is the vector of the regression parameters (Amemiya 1981). The regression coefficients estimate the impact of the independent variables on the probability of an event that occurs. A positive sign for the coefficient means that the variable increases the probability of the event occurring. A negative sign signifies the opposite. The maximum likelihood estimates of the parameters were obtained employing logist regression. The explanatory power of the model is assessed using the *model chi-square* statistics, which test the null hypotheses that all parameter coefficients are zero, except the intercepts term. Large chi-square values and small p values indicate goodness fit. The predictive ability of the model can be determined by the *correct classification rate*, which shows the percentage reduction in classification errors with respect to random selection. However, to identify an acceptable level of predictive accuracy, the obtained classification rate has to be compared to the rate that would have been obtained by chance. In the case of unequal group sizes, the standard to calculate this rate should be *proportional chance criterion*. The formula for this criterion is: $a^2 + (1 - a)^2$ where a is the proportion of cases in group 1 and $1 - a$ is the proportion of cases in group 2. For a rough estimate of the acceptable level of predictive accuracy, Hair et al. (1995) suggest that the classification rate should be at least one-fourth greater than the proportional chance criterion.

In line with previous studies *ordinary least-squares (OLS)* models, were employed to examine the empirical data because the dependent variables were continuous (scale from 1 to 5). Such linear regression models are econometrically appropriate, when the performance of affiliate is treated as the dependent variable (e.g., Demirbag et al. 2007; Dikova 2009; Slangen & Hennart 2008). The regression equation takes the form $Y = b_1x_1 + b_2x_2 + c + e$, where Y is the true dependent, the b 's are the regression coefficients for the corresponding x (independent) terms, where c is the constant or intercept, and e is the error term reflected in the residuals. Sometimes this is expressed more simply as $y = b_1x_1 + b_2x_2 + c$, where y is the estimated dependent and c is the constant (which includes the error term).

7.4 Operationalization of the variables used in this study

7.4.3 *Dependent variables*

Market-seeking FDI (MS) are coded as dummy variables equal to one, if the investment is market seeking and zero otherwise. MS are classified as the FDI undertaken to sustain or protect existing markets or to exploit or promote new markets. More precisely the investing firms undertake in a country or region to supply goods to markets in these or in adjacent countries. In most cases, part or all of these markets will have been serviced previously by exports from the investment firms which, either because of tariffs or other cost raising barriers imposed by the host countries or because the size of the markets now justifies the local production, are no longer best supplied by this route (Dunning 1993).

Resources-seeking FDI (RS) are coded as dummy variables equal to one, if the investment is resource seeking and zero otherwise. RS are classified as the FDI projects are undertaken in order to minimise production costs and/or to secure sources of supply. The reason may be to allocate production resources in countries where factor prices are low relative to a firm's productivity (Randoy 1994) and where it can serve foreign markets by exports (Kumar 1994). The motivation for the resource seeking FDI is to make the investing enterprise more profitable and competitive in the markets it serves (or intends to serve) than it would otherwise be. Most, or all, of the output of affiliates of resource seekers is exported, and mainly, although not exclusively, to develop industrialized countries

Efficiency-seeking FDI (ES) are coded as dummy variables equal to one, if the investment is efficiency seeking and zero otherwise. ES are classified as the FDI project is undertaken in order to rationalize the structure of established production units in such a way that a firm can gain from the common governance interrelated activities in different locations. Such benefits are essentially those of the economies of scale and scope and of risk diversification (Dunning 1993:59). The intention of efficiency-seeking investment is to take advantage of different factor endowments, cultures, institutional arrangements, economic system and policies and market structure by concentrating production in a limited number of locations to supply multiple markets.

Establishment mode: As typical with establishment mode studies (e.g. Harzing 2002) dependent variable is a binary dummy variable coded '0' when the entry into a foreign market is based on the acquisition of an existing company within that market, and '1' when the venture is based on entirely new assets (i.e. a green-

field start-up) the dependent variable is the foreign firm's establishment mode choice (acquisition versus greenfield) into a Ghanaian market were obtained from the questionnaire as to whether the company, in the process of their most recent foreign entry event into Ghana, had acquired an existing local company or whether it had built an operation from scratch.

Ownership mode: Researchers have generally not put forward any specific propositions concerning the impact of ownership structure (i.e. whether the venture is a wholly-owned subsidiary or an equity joint venture), but a substantial number of studies (e.g. Barkema & Vermeulen 1998; Caves & Mehra 1986; Hennart & Park 1993; Larimo 2003) have retained it as a control variable due to the possibility of interactions between entry mode choice and establishment mode choice (Anand & Delios 1997). For this study, ownership structure was retained as dependent variables and is measured using a dummy variable (WOS) coded 1 for wholly-owned subsidiaries (95% or more of equity controlled by the foreign parent) and 0 for equity joint ventures.

Performance: to measure a subsidiary's performance, the variable is captured by using subjective measures: total performance and profitability of the subsidiary based on management evaluation. The reason for using overall performance and profitability as a key performance variable for this study is that these measures are commonly used measures FDI performance studies (e.g. Brouthers et al. 2003; Fey & Beamish 2001; Hult et al. 2008).

Table 9. Description of dependent variables of the motives, establishment mode, ownership mode and performance

Variables	SYMBOLS	Data Source
Resource-seeking	RS	Survey data
Marketing- seeking	MS	Survey data
Efficiency- seeking	ES	Survey data
Greenfield	GRF	Survey data
Acquisition	ACQ	Survey data
Wholly owned subsidiary	WOS	Survey data
Joint venture	JV	Survey data
Total performance	OP	Survey data
Profitability	PR	Survey data

Independent variables related to motives, establishment mode, ownership mode and Performance

Firm size: Is measured by adopting the method used by Anderson and Gatignon (1988). Thus, in this study, firm size is measured by the number of the employees of the parent firm, which was assessed through the questionnaire. The expected sign for motives is positive for MS and/or ES, for the establishment mode, the expected sign is negative for acquisition and for ownership mode the expected sign is positive for WOS. For the performance, the expected sign is positive (see Tables 13, 14, 15 and 16).

International experience: There are alternative measures for international experience that have been used in previous studies such as, share of foreign sales from total sales of the firm (Hennart & Part 1991), the number of years from the time the firm's manufacturing unit was established (Dubin 1976; Zejan 1988), the number of foreign units (majority-owned) owned by the parent (Zejan 1988), the number of countries where the firm has a foreign manufacturing unit (Caves & Mehra 1986), and the geographical diversity of foreign manufacturing units (Dubin 1976). For this study, international experience is measured by the number of foreign manufacturing operations at the time of establishment, and was assessed by the questionnaire. The expected sign for motives is positive for MS and/or ES, and for establishment mode, the expected sign is negative for acquisition, and for ownership mode, the expected sign is positive for WOS. For the performance, the expected sign is positive (see Tables 13, 14, 15 and 16).

Market size: Some studies measured market size based on the value of gross national product (GNP). GNP was used as the measure of market size in the study by Zejan (1988). For this study, market size was measured by the perceived market size and growth potential. This was assessed by the questionnaire on a Likert-type response format of 5-point scale. Respondents were asked to rate market size and potential growth in Ghana. The expected sign for motives is positive for MS and/or ES, for the establishment mode, the expected sign is negative for acquisition, and for ownership choice, the expected sign is positive for WOS. For the performance, the expected sign is positive (see Tables 12, 13, 14 and 15).

Target-country risk: Barkema and Vermeulen (1998) found that MNEs prefer to enter risky countries through greenfields. The likely reason is that greenfields can gradually and carefully be built from scratch, which should be an advantage in countries where the economic and political environment is uncertain and unpredictable, as losses can be reduced to a minimum in this way (Bell 1996; Sharma, 1998). For this study, host country investment risk was assessed by the questionnaire and measured on the Likert-type response format of 5-point scale. Respond-

ents were asked to rate how they perceive investment risk in Ghana at the time of establishment. The expected sign for motives is negative for ES and/or RS, for the establishment mode, the expected sign is positive for greenfield and for ownership choice, the expected sign is negative for JV. For the performance the expected sign is negative (see Tables 12, 13, 14 and 15).

Cultural distance: Is computed by adopting the approach suggested by Kogut and Singh (1988), using a composite index based on differences between the foreign units and Ghana the target country of the investment along the four cultural dimensions (Power distance; uncertainty avoidance; individuality and masculinity) identified by Hofstede (1980). The arguments for applying this approach are that, the method had been used in other previous FDI studies (Li & Guisinger 1991; Larimo 1993) and no other better alternative for the classification seems to be available. The deviations were corrected for differences in the variances of each dimension and then arithmetically averaged. The cultural distance is calculated using Kogut & Singh's (1989) formula: $CD_j = \sum \{(I_{ij} - I_{iu})^2 / V_i\} / 4$. Where I_{ij} is the index for the i th cultural dimension and j th country, V_i is the variance of the index of the i th dimension, u indicates the foreign (in this study, Ghana), and CD_j is the cultural difference of the j th country from the foreign countries (in this study, Ghana). The expected sign for motives is negative for ES and/or MS, for the establishment mode, the expected sign is positive for greenfield, and for ownership choice, the expected is positive for WOS. For the performance the expected sign is negative (see Tables 12, 13, 14 and 15).

Contractual risk: The assessment of internalization and transaction specific was based on the relative cost (or risks) of sharing the assets and skills with a host country firm versus integrating them within the firm. Because such cost is difficult to estimate (Buckley 1988), researchers have recommended the measurement of contractual risks associated with sharing the firm's assets and skills (Dunning 1980). The risks involved in using contracts include cost of making and enforcing contracts in a foreign country relative to the home country, the risk of dissipation of proprietary knowledge, and risk of deterioration in the quality of services if operated jointly with a host country partner or licensee. In this study, contractual risk was assessed by the questionnaire and measured by applying Likert-type response format of 5-point scale. The Respondents were asked to rate how they perceive the cost of making and enforcing a contract at the time of investment. The expected sign for motives is negative for MS, for the establishment mode, the expected sign is positive for greenfield, and for ownership choice, the expected sign is positive for WOS. (see Tables 12, 13, 14 and 15).

Table 10. Cultural distance between other countries and Ghana

Countries	Power distance	Uncertainty avoidance	Individualism	Masculinity	Cultural distance
Belgium	65	94	75	54	2.215
China	80	40	20	66	0.325
Denmark	18	23	74	16	4.611
Egypt	80	68	38	52	0.260
France	68	86	71	43	1.702
Germany	35	65	67	66	2.493
Greece	60	112	35	57	1.767
Hungary	46	82	55	88	2.586
India	77	40	48	56	0.508
Italy	50	75	76	70	2.478
Lebanon	80	68	38	52	0.260
Netherland	38	53	80	14	3.305
Portugal	63	104	27	31	1.326
Spain	57	86	51	42	1.150
South Africa	49	49	65	63	1.651
Sweden	31	29	71	5	3.882
Switzerland	34	58	68	70	2.655
U.K	35	35	89	66	3.788
U.S.A	40	46	91	62	3.448
West Africa (Ghana)	77	54	20	46	-

Proprietary assets: Two types of proxies have been used in the literature to capture the proprietary nature of assets possessed by foreign investors: (1) the ratio of research and development expenditures to sales; or (2) line of business using standard industrial classification (SIC) into various technology levels. For this study, line of business was used, which has been widely used in the literature (e.g. Dunning 1979; Lee 1983; Tallman & Shenkar 1990; Schroath, Hu & Chen 1993; Hu & Chen 1993). First classify the line of business of foreign investment enterprises into two digits. Then group them into high (coded as 1) or low (coded as 0) technology industries. Low technology industries include food and kindred products, tobacco products, textile mill products, paper products, rubber and plastic products, leather products, concrete products. The high technology industries include manufacturing of chemicals products, manufacturing of industrial machinery and manufacturing of electrical and electronic products. The expected sign for the establishment mode is positive for greenfield and for ownership choice the expected sign is positive for WOS and for performance the expected sign is posi-

tive(see Tables 13, 14 and 15) (see appendix 7) number of observations by industry.

Table 11. Independent variables related to motives, establishment mode, ownership mode and performance

Variables	SYMBOL	Data Sources
Firm size	PSIZE	Survey data
International experience	INTEX	Survey data
Market size	MSIZE	Survey data
Host country investment risks	CRISK	Survey data
Cultural distance	CULTDIS	Survey data
Contractual risk	CONTRISK	Survey data
Proprietary assets	PROASSETS	Survey data
PERFORMANCE		
Variables	SYMBOL	Data Sources
Firm size	PSIZE	Survey data
International experience	INTEX	Survey data
Market size	MSIZE	Survey data
Host country investment risks	CRISK	Survey data
Cultural distance	CULTDIS	Survey data
Establishment mode	Establishment mode (greenfield or acquisition)	Survey data
Ownership mode	ownership mode (WOS/JV)	Survey data

Table 12. Expected results for each independent variable related to motives

Variables	SYMBOL	Expected Sign
Firm size	PSIZE	+
International experience	INTEX	+
Market size	MSIZE	+
Host investment risk	CRISK	-
Cultural distance	CULTDIS	-
Contractual risk	CONTRISK	-

+ means increase in probability of undertaking MS, RS or ES FDI's - means decrease in probability of undertaking either MS, RS or ES FDI's FDI.

Table 13. Expected results for each independent variable related to the establishment mode

Variables	SYMBOL	Expected Sign
Firm size	PSIZE	-
International experience	INTEX	-
Market size	MSIZE	-
Host investment risk	CRISK	+
Cultural distance	CULTDIS	+
Contractual risk	CONTRISK	+
Proprietary assets	PROASSETS	+

+ means increase in probability of Greenfield mode - means increase in probability of Acquisition mode

Table 14. Expected results for each independent variable related to the ownership mode

Variables	SYMBOL	Expected Sign
Firm size	PSIZE	+
International experience	INTEX	+
Market size	MSIZE	+
Host investment risk	CRISK	-
Cultural distance	CULTDIS	-
Contractual risk	CONTRISK	+
Proprietary assets	PROASSETS	+

+ means increase in probability of WOS - means increase in probability of JV

Table 15. Expected results for independent variable related to performance

Variables	SYMBOLS	Expected Sign
Firm size	PSIZE	+
International experience	INTEX	+
Market size	MSIZE	+
Cultural distance	CULTDIS	-
Host country risk	CRISK	-
Establishment mode	Establishment mode (greenfield)	+
Ownership mode	Ownership mode (JV)	+

+ means increase in performance - means decrease in performance

7.4.2 Control variables

Control variables related to the establishment mode, ownership mode and performance

Many variables that have been found important in past studies to effect these issue, this study tries to control them. These variables includes product relatedness, incentives, target country experience, competition, country of origin of the investors and age or timing of entry which have been used in past IB studies and have been shown to affect a firm's choice of foreign market mode (Luo 1999). Hence, these variables are included in this study as control variables. The study offers no formal hypotheses for these factors, but does control for them in the empirical analysis.

Product relatedness: MNEs expanding into new industries should prefer to make acquisitions, as this allows them to obtain the tacit product-specific knowledge they need to successfully operate in the new industry (Caves 1996; Hennart & Park 1993). Respondents were asked by the questionnaire for a description of the subsidiary's main products and compared it to the parents' main activities. The variable was assigned a value of 0, if the subsidiary's products are different from the parent's products, and a value of 1, if the subsidiary's main products are the same as the parent's products. Product relatedness has been shown as an important firm level determinant of both FDI establishment and ownership mode choices in past studies (e.g. Hennart & Park 1993, Hennart, Larimo & Chen 1996, Larimo 2003, Chen & Zeng 2004; Dikova 2005), therefore this variable is used as firm level control variable in this study.

Incentives: host-country policies in the form of governmental incentives is a measure designed to influence the size, location or industry of a FDI investment project by affecting its relative cost or by altering the risks attached to it through inducements that are not available to comparable domestic investors (UNCTAD 1994). For this study, Dummy variable was assigned to a value of 1 for incentives, and 0, no incentives. Incentives has been shown as important host country level determinant of both FDI establishment mode and ownership mode choices in past studies (e.g. Padmanabhan & Cho, 1995), thus, this variable is used in this study as control variable.

Target-country experience: Previous experience with the host country entered has been argued to influence an MNE's establishment mode choice. MNEs with considerable experience of a country may already possess all the knowledge required to successfully operate in that country and, hence, may not need to make acquisitions to obtain this (tacit) knowledge. In contrast, there are other studies

arguing that, MNEs with much host country experience may be better at managing local acquisitions, and may therefore be more likely to make them (e.g. Hennart & Park 1993). In this study, respondents were asked if the parent firm had previous experience in Ghana before setting up the affiliate in the country. Target-country experience has been shown as important determinant of both FDI establishment mode and ownership mode choices in the past studies (e.g. Hennart, Larimo & Chen 1996, Barkema & Vermeulen 1998; Arslan & Larimo 2010, Arslan 2011).

Competition: A major difference between greenfield and acquisition entries is that the former increases the local supply, which often reduces prices and profits and may therefore, provoke a competitive response from incumbents (Hennart & Park 1993; Slangen 2005). Such a response is more likely if an industry is growing slowly, and if competition is weak, as greenfield entry will lead to a large increase in supply and therefore, to a large reduction in prices and profits in this case. If an industry is highly competitive and/or growing rapidly, on the other hand, the supply-increasing features of greenfields are less of a problem, as each incumbent's profit is hardly affected in this case. This makes greenfields more tolerable for incumbents and, hence, more likely. Respondents were therefore, asked the level of competition it was expected to encounter at the time of the decision to invest in Ghana. The variable was measured on a 5-point scale.

Historical ties (UK)/Other countries or (country of origin): It was captured in the questionnaire as dummy variables for MNEs operating in Ghana, the parent firm originating from the UK are coded 1 and other countries are coded 0. Respondents were therefore asked to indicate the location of a parent firm. Country of origin has been shown as important determinant of both FDI establishment mode and ownership mode choices in the past studies (e.g. Wilson 1980, Hennart, Larimo & Chen 1996 Markino & Tsang 2011), and therefore it is used in this study as control variable.

Makino and Tsang (2011:546) define historical ties as 'certain types of relations formal or informal, which developed between countries'. They define formal ties as those created intentionally and take the form of agreements, treaties and alliances that aim at promoting interest in a given domain, while informal ties evolve naturally as a result of geographic proximity, immigration, colonization, or missionary activities, and take the form of cultural, ethnic, and social relations between individuals and nations. Rangan (2000) argued that a key function of the historical ties between counties is to make foreign firms' search for and assessment of potential exchange partners easier and less costly, thereby facilitating information flow and making ongoing operations more efficient. Furthermore,

Jones (1996) suggested that colony – colonizer relationships work not only to reduce the investing risks but also to enhance the legitimacy of the investment. He notes that: “colonial governments established similar legal and administrative structures to those in the home country, thereby greatly reducing the risks of FDI. Markino and Tsang, (2011) suggested that prior colony – colonizer relationships have long-lasting, positive effect on trade. In addition, they argued that historical ties clearly influence the economic relations between countries, and the effects are not always positive. They further went on to argue that relations can be disrupted or become hostile because of conflict during the colonial period. Most of the prior research on the impact of historical ties examined their effect on the total FDI inflows between countries but not their effect on the choice of establishment mode, ownership mode and performance. This study, however, examines the investment decision related to the establishment and ownership mode in the context of Ghana and how it impacts on subsidiary performance.

Age or timing of entry: Previous studies (see e.g. Dollar et al., 2003; Carlson et al. 2005) suggest that the length of subsidiaries’ operation in the host country positively impacts the subsidiaries’ performance. Newly created subsidiaries need to be adjusted and directed before they can be integrated into the host country’s domestic market. A relatively old age is likely to have a positive effect on a firm’s performance. In this study, the age of the firm was measured by assigning the value of 0 for firms that entered Ghana from 1990 to 1999 and 1 for those entered Ghana from 2000 to 2008. Furthermore, timing of entry has been shown as important determinant of both FDI establishment and ownership mode choices in past studies (e.g. Barkema & Vermeulen 1998; Padmanabhan & Cho 1999; Harzing 2002, Larimo 2003), therefore this variable is used as control variable in this study.

8 EMPIRICAL FINDINGS

This chapter presents the empirical findings of the study, test of hypotheses and models related to motives, establishment mode, ownership mode and performance of foreign manufacturing firms in Ghana. The first section deals with the testing of hypotheses and models related to the motives of foreign firms in Ghana. The second section deals with the hypotheses and models related to the establishment mode strategies of foreign firms in Ghana. The third section deals with the hypotheses and models related to the ownership mode strategies of the foreign firms in Ghana. The fourth and final section deals with hypotheses and models related to the performance of the foreign firms in Ghana.

8.1 Empirical results related to strategic motives

The descriptive statistics of all variables and their correlations related to the motives is presented in the appendix. The correlations between the independent variables varied from moderate to low implying no multicollinearity problem (see Appendix 1). Table 16 presents the results of the binomial logistic regression in the model. The estimated coefficients represent the probability of undertaking *market, efficiency, and resource-seeking* FDI: a positive coefficient means that a certain type of investment has been undertaken, and a negative coefficient signifies the opposite. In order to analyze the model's strength and explanatory power, chi-square (χ^2) and p values are analyzed. Large chi-square values and small p values indicate a good fit as well as better explanatory power of the statistical models. The model has a satisfactory overall explanatory power with chi-squares of 15.942 with ($p=0.05$) for market-seeking FDI; 11.452 with ($p=0.075$) for efficiency-seeking FDI; and 5.641 with ($p=0.465$) for resource-seeking FDI. Another way of measuring how well a maximum likelihood model fits the data is to use the model to classify observations. The ability to classify can be judged against the classification rate that would have been obtained by a change. The rate is equal to $a^2 + (1 - a)^2$, where a , is the proportion of *MS, ES* and *RS* in the sample. In the present study, the baseline rate is 54.7%, 52.0% and 58.7% respectively. Similarly, the results show that 68%, 68% and 60% of the observations are correctly classified for *MS, ES*, and *RS* respectively.

A summary of the hypotheses with the independent and control variables and their predicted and actual signs is shown in Table 16. Out of the six hypotheses, three variables were significant in model 1a while one variable was significant in model 2a. With regard to the interaction variables, none of the variables tested

were significant, hence they did not have any impact on the motives of FDI in the context of Ghana.

PSIZE is not a significant variable for both MS and ES, suggesting that firm size did not increase or decrease the probability of foreign firms undertaking a market-seeking and/or an efficiency-seeking FDI in Ghana. Thus, hypothesis 1 is not supported.

INTEX is significant at the 0.1 level. The variable had a negative sign suggesting that extensive international experience decreases the probability of foreign firms to undertake an MS FDI in Ghana. Thus, hypothesis 2 is not supported. This result is contrary to the findings of previous studies (e.g. Buckley & Casson 1985; Padmanabhan & Cho 1999). Similarly, international experience is an insignificant variable for ES FDI, suggesting that the international experience variable does not increase or decrease the probability of foreign firms undertaking efficiency FDI in Ghana. Thus, hypothesis 2 is not supported.

MSIZE is significant at the 0.05 level. The variable had a positive sign suggesting that perceived market size increases the probability of foreign firms undertaking an MS in Ghana. Thus, hypothesis 3 is partially supported. It can therefore be argued here that firms expect to accrue greater long-term profits through economies of scale and lower marginal cost of production. The results suggest that investing firms can be better stimulated to undertake market-seeking FDI in Ghana with a good market potential. This result is in line with previous studies, e.g. Sabi 1988; Papanastassionu & Pearce 1990; Wheeler & Moody 1992. The results indicate that the market size of Ghana has a significant and positive effect on attracting FDI. In contrast, perceived market size was significant at 0.01 level. The variable had a negative sign suggesting that perceived market size decreases the probability of foreign firms to undertake efficiency-seeking FDI in Ghana. Thus, hypothesis 3 is not supported. This finding is contrary to previous studies, (e.g. Tahir 2003) who found that the perceived large market size increased the probability of foreign firms undertaking efficiency-seeking FDI.

CRISK is not a significant variable for ES FDI, suggesting that the perceived high country risk did not increase or decrease the probability of foreign firms undertaking an efficiency seeking FDI in Ghana. Thus, hypothesis 4 is not supported.

Table 16. Logistic Regression Results related to motives

Variables	Model 1a Market seeking: Independent variables	Model 1b Market seeking: independent variables and interaction variables	Model 2a Efficiency seeking: independent variables	Model 2b Efficiency seeking: independent variables and interaction variables	Model 3a Resource seeking
PSIZE	-.398 (.445)	-.336 (1.212)	.299 (.424)	.821 (1.509)	NR
INTEX	-.359 (.195)*	-.001 (.523)	.99 (.181)	-.394 (.547)	NR
MSIZE	.965 (.377)**	.998 (.380)**	-1.013 (.385)**	-.461 (.312)	NR
CULDIS	-.307 (.183)*	.197 (.554)	.022 (.172)	.114 (.547)	NR
CRISK	-.028 (.227)		.118 (.223)	-.142 (.746)	NR
CONTRISK	.065 (.208)		.036 (.198)	-.246 (.208)	-0.287 (.196)
INTEX X CULTDIS		-.194 (.155)		-.110 (.131)	
INTEX X CRISK		.013 (.134)		-.184 (.159)	
CONSTANT	-1.092 (1.707)	-2.420 (2.089)	2.232 (1.674)	3.415 (2.677)	3.692 (1.698)**
N	75	75	75	75	75
Model χ^2	15.942**	17.712	11.452	9.101	5.641
-2 Log likelihood	87.376	85.606	92.400	92.607	96.066
Nagelkerke R ²	.256	.281	.189	.154	.098
Correctly classified	68%	69.3%	68%	66.7%	60%

NR= Not Related. **Note:** two-tailed tests; dependent variables are MS, ES, and RS (FDI) ***p<0.01, * p<0.05, * p<0.1

CULTDIS is significant at the 0.1 level. The variable had a negative sign suggesting that perceived cultural distance between Ghana and foreign firm's home countries decreased the probability of foreign firms undertaking an MS FDI in Ghana. Thus, hypothesis 5 is partially supported. The finding can be explained by the fact that in culturally similar countries, the demand structures are usually more similar than in culturally more distant countries. Furthermore, marketing, management and production strategies are more easily and less expensively transferable to culturally close countries and thus can encourage the foreign firms to undertake MS FDIs in a culturally close target country. This result coincides with the findings of previous studies (e.g. Tahir 2003) suggesting that investing firms prefer to undertake FDIs in culturally similar countries. Similarly, cultural distance is not significant for ES, suggesting that perceived cultural distance does not increase or decrease the probability of foreign firms undertaking an ES FDI in Ghana. Thus, hypothesis 5 is not supported.

CONTRISK is not significant for RS, suggesting that perceived contractual risk did not decrease or increase the probability of foreign firms to undertaking an RS FDI in Ghana. Thus, hypothesis is not 6 supported.

8.2 Empirical results related to establishment mode

The descriptive statistics of all variables and their correlations related to the establishment mode is presented in the appendix. The correlations between the independent variables varied from moderate to low. The only worrisome correlation is between that of international experience and target country experience ($r=0.97$), which is higher than the correlation cut-off point 0.60, implying multicollinearity problems (see Appendix 2). The variance inflation factors (VIF) analysis indicated values of 27 and 25 for the two variables, which are considerably higher than Hair *et al.*'s (1998) multicollinearity threshold value of 10. Related to other variables the respective values were clearly below 10 (see Appendix 5). Thus different runs were performed including and excluding international and target country experience. The results of these models were the same as model 1, hence I did not report on them.

The results of the binomial logistic regression in the basic model are presented in Table 17. The explanatory power of all the statistical models are good, as their chi-square values are highly significant at $p<0.000$ level. Moreover, the chi-square values increase from 50.837 in model 1 to 53.597 in model 3 showing increased explanatory power with the addition of independent variables. The predictive ability of the statistical models can be assessed by the correction classifi-

cation rate. In the present study, the baseline rate for the *establishment mode* is 64.4% respectively. Similarly, the results show that 88% of the observations are correctly classified for the *establishment mode*. Furthermore, the predictive capability of the statistical models is further strengthened by the fact that Nagelkerke R^2 values are good as well as they gradually increase from 0.675 to 0.700 from model 1 to model 3. In Table 17 model 1, the regression coefficients illustrate that:

PSIZE is significant at the 0.01 level. The variable had a negative sign, suggesting that the larger the firm size the higher the probability that the foreign firm will choose an acquisition mode of entry over greenfield in Ghana. Thus, hypothesis 7 is supported. The finding can be explained here as meaning large firms have the managerial resources and capabilities that can facilitate the integration and the control of the fully acquired or partial acquired foreign firm as compared to a smaller size firm. The result suggests that with the large firm size, the managerial resources and capabilities are not a problem as compared to small firms entering a foreign market; thus, they prefer acquiring an existing firm than setting up a new plant since acquiring existing firms facilitates access to existing networks. This result is in line with the previous studies (e.g. Padmanabhan & Cho 1995; Barkema & Vermeulen 1998; Shaver 1998; Harzing 2002; Mudambi & Mudambi 2002; Larimo 2003) who found out that large firm size compels firm to go for acquisition rather than greenfield when investing in a foreign market. This finding also confirms the findings of Larimo (1993, 1997) whose studies specifically concentrated on the behaviour of FDI's made by the Finnish MNEs in their international markets and revealed that large Finnish MNEs preferred acquisitions in their establishment mode choice.

INTEX is significant at the 0.1 level. The variable had a negative sign suggesting that the more extensive the international experience of the foreign firm, the higher the probability that the foreign firm will choose an acquisition mode of entry over a greenfield in Ghana. Thus, hypothesis 8 is supported. The finding is in line with many previous studies (Mudambi & Mudambi 2002; Larimo 2003; Harzing 2003; Caves & Mehra 1986; Kogut & Singh 1988 Hennart & Reddy 1997). These scholars argue that a firm's foreign investment experience can contribute to the development of new knowledge and capabilities and can make a firm efficiently reduce the uncertainties and threats. This result contradicts the findings of Brouters and Brouters (2000) and Arslan (2011), who found that highly internationally experienced firms preferred greenfield investment..

MSIZE is significant at the 0.05 level. The variable had a negative sign suggesting that the larger the perceived market size, the higher the probability that the

foreign firm will choose an acquisition mode of entry over a greenfield in Ghana. Thus, hypothesis 9 is supported. The finding can be explained by Ghana being a key player in the economic community of the West African states (ECOWAS), with a population of more than 250 million in the region, and rapid market growth coupled with free movement of goods and services; entering these markets with greenfield investment may slow the achievement of the foreign firms' strategic objective. Therefore, acquisition is considered the best method for the foreign investor to opt for. This result is line with previous studies e.g. Laurila and Ropponen (2003); Buckley and Casson (1998), who found out that large market size compels firms to go for acquisition rather than greenfield when investing in a foreign market.

CRISK is significant at the 0.05 level. The variable had a positive sign suggesting that the higher the perceived country risk, the higher the probability that the foreign firm will choose a greenfield mode of entry over an acquisition mode of entry in Ghana. Thus, hypothesis 10 is supported. Hennart et al. (1998) reveal that there are high costs associated with acquisitions compared to greenfield investments due to post-acquisition integration and other structural changes in the subsidiary. Furthermore, it has also been mentioned that returns on the acquisitions of local firms are also uncertain in many emerging economies (e.g. Li 1995; Delios & Henisz 2000). Hence, greenfield investments can emerge as a better option for the MNEs in some of the high risk host countries as it also strengthens the managerial link between parents firm and its subsidiaries (e.g. Brouthers et al. 1999; Ahmed et al. 2002). One can therefore think that because many countries in Africa have been volatile, foreign firms investing in this environment will try to minimize exposure to risk through entry mode that offers the necessary flexibility in the face of environmental variability. Hence, based on perceived high environment uncertainties in Sub-Africa, foreign firms prefer to opt for greenfield over acquisition in order to minimize their financial exposure to risk. This helps the foreign firms to reduce the risk in case of unexpected events occurring in the country that would require the foreign firm to exit or relocate to a different country.

CULTDIS is significant at the 0.05 level. The variable had a positive sign suggesting that the perceived higher cultural distance between the foreign home countries and Ghana increased the probability of the foreign firm choosing a greenfield mode of entry over an acquisition mode of entry. Thus, hypothesis 11 is supported. The finding implies that when there is a large cultural difference between Ghana and the home country of the foreign firm, this is likely to result in differences in organizational and managerial practices. This means it would be difficult for foreign firms to integrate their corporate network into acquisitions

made in Ghana, as the practices of Ghanaian firms acquired are likely to be incompatible or difficult to integrate into the foreign MNCs corporate culture. To this end, it is thus much better for foreign firms investing in Ghana to set up new subsidiaries to avoid cultural problems. The result suggests that it will be easier for foreign MNEs to integrate greenfields investments made in Ghana, as greenfields enable MNEs to introduce their organizational and managerial practices from the beginning and carefully select and hire employees who fit their national culture. The result of this study is consistent with the findings of previous studies e.g. Hennart and Park (1993); Hofstede (2001); Kogut and Singh (1988); Cho and Padmanabhan (1995); Larimo (2003), who found that foreign firms prefer to choose a greenfield rather than an acquisition in culturally distant target countries. This result differs from the study conducted by Bhaumik et al. (2005) in South Africa and Egypt. In their study, they found that cultural distance is an insignificant variable hence it does not affect the choice of establishment mode.

PROASSETS is significant at the 0.05 level. The variable had a positive sign suggesting that the higher the proprietary assets possessed by the foreign firm, the higher the probability that the foreign firm will choose a greenfield mode of entry over acquisition in Ghana. Thus, hypothesis 13 is supported. The result implies that since the cost of writing and enforcing a contract is very high in Ghana, foreign firms prefer to choose greenfield over acquisition. Transaction costs associated with exploiting such knowledge through greenfield in Ghana is considered to be lower than those associated with exploiting it through acquisitions. Greenfield therefore enables foreign firms entering Ghana to install their technologies from the start and to transfer the accompanying skills to a carefully-selected workforce capable of and willing to absorb them. While it has been argued by scholars that MNEs with an abundant firm-embedded technological knowledge are likely to choose greenfield, those lacking such knowledge are likely to choose acquisition. This result is in line with the previous studies (e.g. Hennart & Park 1993; Andersson & Svensson 1994; Brouthers & Brouthers 2003; Slangen & Hennart 2007; Drogendijk & Slangen 2006; Herrmann & Datta 2006; Larimo 2003) which suggest that foreign firms with proprietary assets opt for a greenfield mode when entering foreign markets.

INCENTIVE is significant at the 0.05 level. The variable had a positive sign suggesting that the more incentives provided by the Ghana government, the higher the probability that the foreign firm will choose a greenfield mode of entry over acquisition in Ghana. The finding can be explained as follows: because the Ghanaian government has provided incentives to foreign firms for greenfield investment in the form of tax holidays for a number of years, this has served as motivat-

ing factors for foreign firms to choose greenfield mode entry over acquisition when entering Ghana.

The remaining variables include; contractual risk, product relatedness, host country experience, historical ties (UK)/other countries (origin of the parent firm), and competition are statistically non-significant. The finding shows that there is no significant impact of these variables on the MNEs establishment mode choice in Ghana.

Table 17. Logistic Regression Results Related to Establishment Mode

Variables	<u>Model 1</u> full sample	<u>Model 2</u> full sample with motives	<u>Model 3</u> full sample with interaction variables
Independent variables			
PSIZE	-3.746 (1.376)***	-3.890 (1.498)***	-3.785 (1.275)***
INTEX	-2.643 (1.563)*	-3.016 (1.690)*	-4.337 (1.928)**
MSIZE	-1.304 (.632)**	-1.214 (.652)*	-1.337 (.680)**
CRISK	.853 (.401)**	.822 (.410)**	-.214 (.778)
CULTDIS	.678 (.296)**	.678 (.304)**	.335 (.605)
CONTRISK	.740 (.457)	.739 (.473)	.784 (.472)*
PROASSETS	2.117 (1.020)**	1.612 (1.683)	1.640 (1.035)
Motives			
MS		.971 (1.583)	
RS		.902 (1.064)	
ES		.025 (1.008)	
Control variables			
PRELATEDNESS	1.712 (1.100)	1.922 (1.159)*	1.352 (1.192)
TCEXPERIENCE	2.432 (1.521)	2.822 (1.649)*	2.714 (1.431)*
COMPETITION	.176 (.332)	.285 (.355)	.187 (.354)
INCENTIVES	2.707 (.981)**	2.778 (1.097)**	2.769 (1.102)**
UK/OTHERS	.884 (1.112)	1.506 (1.387)	1.340 (1.288)
TIMING OF ENTRY	-1.557 (.925)*	-1.435 (.943)	-1.560 (.981)
OWNERSHIP MODE	2.248 (1.114)**	2.457 (1.197)**	2.460 (1.186)**
Interaction variables			
INTEX X CRISK			.396 (.257)
INTEX X CULTDIS			.120 (.203)
CONSTANT	.528 (3.190)	-1.383 (4.047)	4.589 (4.378)
N	75	75	75
Model X ²	50.837*****	51.835*****	53.597*****
Correct Classification Rate	88%	85.3%	90.7%
-2 log likelihood	47.176	46.178	44.415
Nagelkerke R ²	.675	.684	.700

Note: two-tailed tests; dependent variables is Establishment mode: greenfield = 1; acquisition = 0, ***p<0.01, **p<0.05, *p<0.1

Additional analysis

In Table 17 model 2, the findings shown that none of the motives variables were statistically significant and hence do not have impact on the establishment mode choice in the contexts of Ghana. With regard to the interaction variables on establishment mode choice, the results of the study reveal that none of the interaction variables were statistically significant; hence they do not have any impact on establishment mode choice in the context of Ghana. (see Table 17 model 3).

8.3 Empirical results related to ownership mode

The descriptive statistics of all variables and their correlations related to the ownership mode are presented in the appendix. The correlations between the independent variables varied from moderate to low. The only worrisome correlation is between that of international experience and target country experience ($r=0.97$), which is higher than the correlation cut-off point 0.60, implying multicollinearity problems (see Appendix 3). The variance inflation factors (VIF) analysis indicated values of 27 and 25 for the two variables, which are considerably higher than Hair *et al.*'s (1998) multicollinearity threshold value of 10. Related to other variables the respective values were clearly below 10 (see Appendix 5). Thus different runs were performed including and excluding international and target country experience. The results of these models were the same as model 1 and, therefore, I did not report on them.

The result of the binomial logistic regression in the basic model is presented in Table 18. The explanatory power of all the statistical models are good, as their chi-square values are significant at $p<0.05$ level in both model 1 and 3 and significant at $p<0.01$ level in model 2. Moreover, the chi-squares increase from 27.236 in the model 1 to 40.328 in model 2 showing increased explanatory power with the addition of independent variables. The increase in chi-square is statistically significant as a result of the motive variables which are added to the model. The chi-square decreased from 40.328 in model 2 to 28.008 in model 3, showing decreased explanatory power with the addition of independent variables. The decrease means that the additional independent variables did not have any explanatory power on the model. The predictive ability of the statistical models can be assessed by the correction classification rate. In the present study, the baseline rate for the *ownership mode* is 60%. Similarly, the results show that 78.7%, of the observations are correctly *ownership mode*. Also, the predictive capability of the statistical models is further strengthened by the fact that Nagelkerke R^2 values increase from 0.412 to 0.562 in model 2 and also decreases from 0.562 to 0.421

in model 3. In Table 18 model 1 illustrates the effect of the independent variables and control variables on the FDI ownership mode choice of foreign MNEs in Ghana. The results of regression illustrate that:

CONTRISK is significant at the 0.05 level. The variable had a positive sign suggesting that the higher the contractual risk in Ghana, the greater the probability that the foreign firm will choose a WOS mode of ownership over JV. Thus, hypothesis 22 is supported. This result can be interpreted here as follows: since the cost of making and enforcing a contract in Ghana is high, foreign firms prefer to set up a WOS rather than JV in order to minimize the negotiation and transaction costs and ensure adequate quality control, avoid the risk of dissipation of knowledge, and avoid property right enforcement costs. The internalizing of international operations comes at a cost, and these costs must be compared with the costs of finding and maintaining an external relationship to perform the same functions in the international markets. These internalization advantages represent the motivations behind the firm's decision to internalize its foreign markets. The effect of the internalization advantage suggested that firms will prefer to do things within the organisation if the perceived risk of dissipation of knowledge, risk of deterioration of quality of services, and cost of writing and enforcing contracts are high. This result is in line with previous studies (e.g. Hill, Hwang & Kim 1990).

PSIZE is not a significant variable, suggesting that firm size did not increase or decreased the probability of the foreign firm choosing either a WOS or a JV mode of ownership in Ghana. Thus, hypothesis 17 is not supported. Previous studies (e.g. Erramillia & Rao 1993; Hennart & Park 1993; Gomes-Casseres 1985; Kogut & Singh 1988; Benito 1995; Mutinelli & Piscitello 1997; Leung et al. 2003; Nakos & Brouthers 2002; Evans 2002; Yung-Heng & Yann-Haur 2009) found that large firms often prefer a WOS over JV because of their greater ability to input resources to absorb risks than the smaller firms, and as such will prefer high controlled mode. The result does not support their predictions. This result can be explained by the fact that the size of a firm does not really matter when it comes to mode of ownership in the context of Ghana.

INTEX is not a significant variable, suggesting that international experience did not increase or decreased the probability of the foreign firm choosing either a WOS or a JV ownership mode of entry in Ghana. Thus, hypothesis 18 is not supported. Previous studies (e.g. Gomes-Casseres 1985, 1987; Agarwal & Ramaswami 1992; Sanna-Randaccio 1990; Tang 1994; Bell 1996; Mutinelli & Piscitello 1997; Reuber & Fisher 2003; Evans 2002; King & Tucci 2002; Nakos & Brouthers 2002; Yung-Heng & Yann-Haur 2009) found that extensive internationally experienced firms prefer to choose a WOS over a JV when investing in the foreign

country. Their argument is based on the fact that a firm's past experiences serve as an important competitive advantage in FDI's choice of foreign market entry. The reason is that the foreign firm with more experience should have developed organisational capabilities suited to those markets and, hence, they can make greater commitments to foreign market investment. On the other hand, firms with less experience in a foreign market tend to prefer a JV to a WOS in order to minimize the financial risks associated with international expansion (Anderson & Gatignon 1986). This result does not support any of the above-mentioned predictions, but is in line with some of the previous studies (e.g. Lu 2002; Brouthers 2002; Claver & Quer 2005; Aslan & Larimo 2010) they also found that, international experience did not have any impact on ownership mode.

MSIZE is not a significant variable, suggesting that perceived large market size did not increase or decrease the probability of foreign firms choosing either a WOS or a JV ownership mode of investment in Ghana. Thus, hypothesis 19 is not supported. Previous empirical studies have shown that in a country with big market potential, foreign firms tend to prefer WOS so that they can obtain scale economies in order to reduce costs per units and also to establish a long-time presence (e.g. Agarwal & Ramaswami 1992; Nakos & Brouthers 2002; Eicher & Kang 2002; Chung & Enderwick 2001). In contrast, countries with low potential market, over capacity may exist, thus making firms reluctant to make large investments; under these condition firms may prefer a JV mode of investment. This result did not affect the ownership mode of foreign firms investing in Ghana.

CRISK is not a significant variable, suggesting that perceived high country risk did not increase or decrease the probability of foreign firms choosing either a JV or a WOS. Thus, hypothesis 20 is not supported. Previous studies (e.g. Brouthers, 2000; Cristina & Esteben 2002; Brouthers & Brouthers 2000; Tahir & Larimo 2006) suggest that foreign firms will prefer to opt for JV over WOS when entering the foreign market with high risk. This result is not significant and does not affect the mode of ownership in the context of Ghana.

CULTDIS is not a significant variable, suggesting that the perceived large cultural distance between Ghana and the home country of the foreign firm did not increase or decreased the probability of the firm choosing either a WOS or JV mode of ownership in Ghana. Thus, hypothesis 21 is not supported. Previous studies (e.g. Kogut & Singh 1988; Gatignon & Anderson 1988; Padmanabhan & Cho 1994; Benito 1995; Bell 1996; Mutinelli & Piscitello 1997; Hennart & Larimo 1998; Padmanabhan & Cho 1999; Evans 2002; Cristina & Esteban 2002; Leung et al. 2003) have shown that large cultural distance between the home and host countries" support the choice of a JV mode of entry. Their argument is based on

the fact that since a foreign firm is faced with the uncertainty that arises from an unknown culture, the firm may be unwilling to commit substantial resources to a foreign operation since such a commitment would substantially reduce the firm's ability to exit without cost if the host market proves unattractive. This result did not support the theory and the predictions of previous research. Cultural distance is not a significant variable in the context of Ghana and hence did not affect the ownership mode.

PROASSETS is not a significant variable, suggesting that the proprietary assets of the foreign firm did not increase or decrease the probability of the foreign firm choosing either a WOS or a JV form of ownership in the context of Ghana. Thus, hypothesis 23 is not supported. Previous studies (e.g. Larimo 2000; Tahir & Larimo 2006; Brouthers & Brouthers 2000; Yung-Heng & Yann-Haur 2009) found that high R &D firms prefer to use a WOS mode of ownership than the a JV. The results show that due to weak institutions and lack of protection of a proprietary asset in Ghana, foreign firms do not usually transfer this asset to the country when setting up affiliates. Hence, they do not consider the proprietary asset of the firm as a key in their decision for mode of ownership. This can be attributed to the reason why proprietary asset did not affect the mode of ownership in the context of Ghana.

Product relatedness is significant at the 0.1 level. This variable had a negative sign suggesting that the more the subsidiary product is related to the main product of the parent firm, the higher the probability of the foreign firm choosing a JV mode of ownership. The finding can be interpreted as follows: due to the risky nature of the Ghanaian business environment and the small size of the market, it seems more profitable for foreign firms to establish through a joint venture mode of ownership than a wholly owned one in order to reduce the risk associated with the environment. This seems to explain why the result of this study contradicts the findings of previous studies and the prediction of the theory used in this study.

With regard to the control variables: target country experience, competition, incentives, historical ties (UK)/other countries are found to be non-significant for FDI ownership mode choice of foreign MNEs in the context of Ghana.

Additional analysis

MS is not statistical significant in Table 18 model 2, suggesting that the market-seeking FDI motive of the foreign firm does not lead to an increase or decrease in the probability of the foreign firm choosing either a WOS or a JV mode of ownership in the context of Ghana. Thus hypothesis 24 is not supported. The finding can be interpreted by the fact that the Ghana market is not big, and most of the

foreign firms do not invest in the country with the market-seeking motive in Ghana.

Table 18. Logistic Regression Results Related to Ownership mode

Variables	Model 1 full sample	Model 2 full sample and motives)	Model 3 full sample and interaction variable
Independent variable			
PSIZE	.619 (.750)	.541 (.996)	.574 (.744)
INTEX	-.240 (1.129)	-.230 (1.335)	-.214 (1.438)
MSIZE	-.143 (.423)	-.087 (.500)	.107 (.434)
CULTDIS	-.265 (.225)	-.394 (.283)	-.641 (.511)
CRISK	-.145 (.264)	-.153 (.306)	.118 (.711)
CONTRISK	.674 (.276)**	.853 (.335)**	.709 (.287)**
PROASSETS	.517 (.740)	-.057 (2.031)	.563 (.773)
Motives variables			
MS		-.365 (2.007)	
RS		-1.799 (.782)**	
ES		-2.094 (.929)**	
Control variables			
PRELATEDNESS	-1.465 (.809)*	-2.366 (1.095)**	-1.525 (.883)*
TCEXPERIENCE	.574 (1.120)	.430 (1.331)	.430 (1.163)
COMPETITION	-.238 (.263)	-.603 (.350)*	-.238 (.267)
INCENTIVES	.327 (.745)	-.277 (.817)	.189 (.781)
UK/OTHERS COUNTRIES	-1.033 (.754)	-1.820 (.965)*	-1.332 (.857)
TIMING OF ENTRY	-1.111 (.714)	1.707 (.947)*	1.126 (.729)
ESTABLISHMENT MODE	2.312 (1.049)**	1.806 (1.043)*	2.224 (1.037)**
Interaction variables			
INTEX X CRISK			-.073 (.197)
INTEX X CULTDIS			.140 (.168)
CONSTANT	-3.312 (2.443)*	1.581 (3.575)	-3.318 (3.097)
N	75	75	75
Model X ²	27.236**	40.328***	28.008**
Correct Classification Rate	78.7 %	84 %	74.7 %
-2 log likelihood	73.716	60.624	72.943
Nagelkerke R ²	.412	.562	.421

Note: two-tailed tests; dependent variables is Ownership choice: WOS = 1; and J V = 0, ***p<0.01, **p<0.05, *p<0.1

RS is significant at the 0.05 level. The variable had a negative sign suggesting that the higher the motive for resource-seeking FDIs in Ghana, the greater the probability that the foreign firm will choose a JV mode of ownership rather than a WOS. Thus hypothesis 25 is supported. The finding can be explained by the fact that since most resource's firms in Ghana are owned by the state, in general, the

government does not want to sell the whole firm to foreign investors but hold some percentage share of the firm. As a result, most resource-seeking firms end up becoming a JV between the government and the foreign investor.

ES is significant at the 0.05 level. The variable had a negative sign suggesting that the higher the motive for efficiency-seeking FDIs in Ghana, the greater the probability that the foreign firm will choose a JV mode of ownership rather than a WOS. Thus hypothesis 26 is supported. The reason foreign firms with efficiency-seeking motive opt for a JV mode of ownership in Ghana is that because of the perceived high risk of investing in Ghana, most of the foreign firms prefer to set up their subsidiary through a JV mode instead of WOS in order to minimise their risk of exposure of their resources. As a result of uncertainties surrounding the environments, the foreign firm will try to reduce their investment risk by opting for JV mode of ownership rather than WOS mode.

Interaction effect: The results of the study reveal that none of the interaction variables are statistically significant, hence does not have any impact on ownership mode choice. The joint effect of these combined variables does not lead to an increase or decrease in the probability of a foreign firm choosing either a JV or a WOS in the context of Ghana (see Table 18 model 3).

8.4 Empirical results related to subsidiary performance

The descriptive statistics of all variables and their correlations are presented in Appendix 1. The correlations between the independent variables varied from moderate to low. The only worrisome correlation is between that of international experience and target country experience ($r=0.97$), which is higher than the correlation cut-off point 0.60, implying potential multicollinearity problems. The variance inflation factors (VIF) analysis indicated values of 27 and 25 for the two variables, which are considerably higher than Hair *et al.*'s (1998) multicollinearity threshold value of 10. Related to other variables the respective values were clearly below 10 (see Appendix 5). Thus different runs were performed including and excluding international and target country experience. The results of the ordinary regression analysis are presented in Table 19. Model 1 is significant at the level ($p<0.002$), and has R^2 value of 0.427, and adjusted R^2 value of 0.281. The model 2 is significant at the level ($p<0.010$), and has an R^2 value of 0.376, and adjusted R^2 value of 0.218. The regression coefficients illustrate that:

MSIZE is significant at the 0.05 level in both model 1 and 2. This variable had a positive sign suggesting that perceived larger market size increases the probability of better performance and higher profitability by the foreign firm affiliate in Ghana. Thus, hypothesis 27 is supported. The finding implies that due to the large perceived market size which results in a reduction in marginal costs of producing, foreign firms tend to invest in location rather than resort to export. Thus, host countries with large market size enable foreign entrants to achieve economies of scale, which leads to better performance. This result is in line with previous studies (e.g. Brouthers 2002) who found that large market size positively affects foreign subsidiary performance.

CRISK is significant at the 0.1 and 0.05 level in models 1 and 2. The variable had a negative sign suggesting that perceived high country risk decreased the total performance and profitability of the foreign firm affiliate in Ghana. Thus, hypothesis 31 is supported. The finding here can be interpreted by the fact that high environmental uncertainties in Ghana lead to an increase in the cost of operation of firms, which in the long run has affected the total performance and profitability of foreign firms in Ghana.

ESTABLISHMENT MODE is significant at the 0.05 and 0.1 level in models 1 and 2. The variable had a positive sign suggesting that a greenfield mode of entry performed better than the acquisition mode of entry. Thus, hypothesis 32 is supported. This finding suggests that the lack of acquisition targets (Slangen & Hennart 2008), resulted in few acquisitions in Ghana relative to greenfield investment. The relatively small number of acquisition targets suggests that local firms in Ghana lack the capabilities and attractiveness for foreign firms to acquire them. Thus, foreign firms opt for greenfield investment to enable them to introduce their own organizational culture that will allow them to transfer their core management capabilities from their headquarters, which will enhance operational effectiveness. Studies by Woodcock et al. (1994) and Hennert (1998) reveal that there are high costs associated with acquisitions compared to greenfield investment due to post-acquisition integration and other structural changes in the subsidiary.

OWNERSHIP MODE is significant at the 0.01 and 0.05 level in models 1 and 2. The variable had a negative sign suggesting that JVs performed better than the WOS. The results support hypothesis 33. We can therefore think that since the Ghanaian market is not big, entering the market with a JV has allowed foreign firms to better adapt to the business environment and to compete with local firms. Scholars have suggested that in bigger markets, foreign investors choose WOS over JVs in order to obtain scale economies, as this reduces unit costs and the establishment of long-term market presence. This result is in line with previous

studies like Pan and Chi, (1999), Pan, Li and Tse (1999), Reus and Ritchie, (2004) who also found that JVs perform better than WOS.

The age of the unit is significant at the 0.05 and 0.1 level in models 1 and 2. This variable had a positive sign suggesting that foreign affiliated firms set up in Ghana after year 2000s have performed better than those affiliates set up in the 1990s (the older units). The result of this study contradicts the predictions of some previous studies (e.g. Dollar et al. 2003; Carlson et al. 2005). In their studies, they suggest that the length of subsidiaries' operation in the host country had a positive impact on the subsidiaries' performance. The finding here can be attributed to the fact that the improved institutional structure in the 2000s compared to the 1990s has improved the performance and profitability of foreign firms set up in the 2000s and onwards.

Proassets is significant at the 0.1 and 0.05 level in models 1 and 2. The variable had a negative sign suggesting that higher proprietary assets possessed by foreign firms decreased the total performance and profitability of foreign affiliates in Ghana. This result is opposite to the predictions of research, and it is very intriguing. The finding can be explained by the lack of protection of proprietary assets in Ghana and, hence, foreign firms find it very difficult to transfer their proprietary assets to their affiliate in Ghana as a result of the fear of losing such assets. This ends up having negative implications on both the total performance and profitability of the affiliate in Ghana.

CULTDIS is significant at the 0.05 level in model 1. The variable had a negative sign suggesting that perceived high cultural distance decreased the total performance of foreign affiliates in Ghana. Thus, hypothesis 30 is supported. This result is in line with previous studies e.g. Li and Guisinger (1992); Chang (1995) who found that high culture distance between the host country and home country of the foreign firm has a negative impact on the performance. Other studies consider cultural distance in the MNEs' portfolio as having a positive influence on performance (e.g. Gomez-Mejia & Palich 1997; Park & Ungson 1997). The results of this support the prediction and argument put forwards by, for example, Li and Guisinger (1992) and Chang (1995) who stated that doing business in a highly cultural distance will lead to lower performance by a foreign firm. The finding here can be explained based on the argument that high cultural differences between foreign firms home countries and Ghana has had a negative impact on the total performance of foreign affiliates in Ghana.

INTEX is significant at the 0.1 level in model 1. The variable had a negative sign suggesting that the extensive international experience of a foreign firm leads to a decreased in the total performance of foreign affiliates in Ghana. Thus, hypothesis

28 is not supported. This result is opposite to the prediction of previous scholars (e.g. Kim et al. 1993) who have suggested that as a firm expands its operation overseas, it learns more about how to cope with different environments in terms of economic, political and legal systems, as well as the psychic distances. These learning skills can be applied to new foreign investment opportunities. This result contradicts the findings of a study conducted by Kim et al. (1993). The findings here suggest that parent firms may have international experiences but these experiences are not applicable in the context of Ghana because of differences in government regulations and the cultural settings of the people.

Tcexperience is significant at the 0.05 level in model 1. The variable had a positive sign suggesting that foreign firms with previous experience in Ghana had their affiliates perform better on total performance than firms without previous experience in Ghana. This result is in line with previous studies (e.g. Johanson & Vahlne 1977; Barkema & Vermeulen 1998) who found that target experience has a positive impact on performance. This result suggests that with a parent firm having previous experience in Ghana, the foreign firm has acquired the necessary knowledge in the country concerning the various ways of doing business, and this leads to a reduction in the uncertainty of doing business in Ghana. Hence, previous knowledge of doing business in Ghana has helped firms to operate efficiently, which in turn has led to better performance. An interesting finding was the influence of two experience variables towards opposite directions: while target country experience is positive related to performance, international experience is negative.

An incentive is significant at the 0.05 level in model 2. The variable had a positive sign suggesting that incentives granted by the Ghana government to foreign investors impacts on the profitability of their foreign affiliates.

Historical UK/other countries were significant at the 0.05 level in model 2. The variable had a negative sign suggesting that foreign affiliate in Ghana with their parent firm originating outside UK are more profitable than those affiliates with their parent firm originating from the UK. The reason for adding this variable to the analysis is to find out if historical ties have any impact on the performance and profitability of foreign firms in Ghana, since Ghana was colonized by Britain. The finding revealed that country of origin does not affect the performance of subsidiaries. The results do not offer support for effect of country of origin on performance. Hence, the fact remains inconclusive. Pangarkar and Lim (2003) and Demirbag et al. (2007) reached a related conclusion. The results here suggest that the strategy of the foreign firm, rather than country of origin, may have been the key reason behind the success of foreign firms affiliated in Ghana.

Firm size and product relatedness variables in both models were insignificant. Thus surprisingly the subsidiary performance in Ghana was not significantly dependent on those variables. Furthermore, two control variables – contractual risk and competition – were also found to insignificant in both models.

Additional analysis

The *Combined effects of establishment and ownership mode*, as was discussed earlier, making the FDI in the form of greenfield investment was expected and also found to increase probability of better performance; choosing the joint venture ownership instead of WOS was expected and also found to have better performance. However, we expected that joint ventures would lead to better performance than WOSs only in cases of Greenfield investments whereas in cases of acquisitions WOSs would lead to better performance than joint ventures (partial acquisitions). As the results in model 9 indicate, independent of the measure of performance, greenfield joint ventures increased significantly probability of better performance. Thus hypothesis 34 is supported. The results analysing the influence of ownership arrangement in acquisition form of FDIs (model 7) indicated, however, a significant influence along performance measure but not profitability and is opposite to the prediction of the hypothesis. Thus hypothesis 35 did not receive support.

Interaction effect: The findings of the interaction effects between *highly international experienced* and *perceived high country risk* is significant at the 0.1 level in Table 19 model 3 but not significant in model 4. Hypothesis 36 is not supported. The combined variable had a negative sign suggesting that the joint effects of MNEs having extensive international experience and operating in high risk markets decrease the performance of foreign subsidiaries in Ghana. The findings here suggest that parent firms may have international experiences but these experiences may not be applicable in a Ghanaian context because of the risk nature of the business environment. Also, most of the MNEs rely on their past success in other countries and use this as a basis to enter a different country, without proper preparation forgetting that the different countries with different institutional structures make it difficult for MNEs to transfer those experience acquired in different contexts to the new market to enable them to operate efficiently. This result suggests that international experience alone is not enough for MNEs to achieve better performance, especially when operating a high risk market. Hence, there is the need for MNEs to pay attention to the business environment in the local context. Based on these finding, we could say that the success of the MNEs in an international market depends not only on the ownership specific factors but also location specific factors since some of these ownership specific factors cannot be transferred into certain environments. It has been argued that when firms gradually increase

the scope of their international activities, the ownership advantage become more specific to the firm but less specific to any location (Kogut 1985; Rugman 1979; Verbeke et al. 2010). Hence there is the need for MNEs from the outset to recognize the limited transferability of some of these ownership advantages when engaging in international strategic planning. However, the interaction effects between *large international experience* and *perceived high cultural distance* is statistically non-significant in both models, and thus hypothesis 37 is not supported.

Table 19. OLS Regression Results related to Total Performance and Profitability

Variables	Model 1 Total Performance	Model 1a Total performance without target country experience	Model 1b Total Performance without international experience	Model 2 Profitability	Model 2a Profitability without target country experience	Model 2b Profitability without international experience
Independent variables						
PSIZE	-.253 (.191)	-.182 (.191)	-.183 (.190)	.148 (.224)	.168 (.218)	.155 (.217)
INTEX	-.636 (.362)*	.044 (.079)		-.059 (.424)	.134 (.090)	
MSIZE	.341 (.140)**	.345 (.143)**	.346 (.142)**	.427 (.164)**	.428 (.163)**	.428 (.163)**
CULTDIS	-.156 (.073)**	-.155 (.075)**	-.151 (.075)**	-.130 (.086)	-.130 (.086)	-.130 (.085)
CRISK	-.165 (.092)*	-.193 (.092)**	-.193 (.092)**	-.221 (.107)**	-.229 (.105)**	-.224 (.105)**
ESTABLISHMENT MODE	.570 (.282)**	.634 (.286)**	.641 (.283)**	.607 (.305)*	.625 (.326)*	.613 (.324)*
OWNERSHIP MODE	-.670 (.236)***	-.657 (.241)***	-.671 (.240)***	-.637 (.277)**	-.634 (.275)**	-.637 (.274)**
Control variables						
CONTRISK	.057 (.091)	.011 (.089)	.015 (.089)	-.002 (.106)	-.015 (.102)	-.006 (.102)
PROASSET	-.149 (.264)*	-.410 (.252)	-.394 (.250)	-.674 (.289)**	-.671 (.287)**	-.671 (.286)**
PRELATEDNESS	.277 (.258)	.359 (.260)	.367 (.257)	.172 (.302)	.195 (.296)	.181 (.294)
TCEXPERIENCE	.683 (.355)*		.074 (.077)	.194 (.416)		.137 (.088)
COMPETITION	-.025 (.082)	-.005 (.083)	-.005 (.082)	-.048 (.096)	-.043 (.095)	-.046 (.094)
INCENTIVES	.263 (.247)	.228 (.252)	.234 (.251)	.765 (.290)**	.755 (.287)**	.762 (.287)**
AGE: 1990/2000S	.570 (.229)*	.578 (.234)*	.590 (.233)**	.496 (.269)*	.498 (.267)*	.498 (.267)*
UK/OTHERS	-.213 (.260)	-.315 (.260)	-.317 (.257)	-.686 (.305)*	-.715 (.297)**	-.696 (.295)**
CONSTANT	2.565 (.748)***	2.527 (.765)***	2.398 (.755)***	1.730 (.878)*	1.718 (.872)*	1.714 (.864)*
N	75	75	75	75	75	75
R ²	.427	.391	.397	.376	.374	.376
Adjusted R ²	.281	.249	.256	.218	.228	.231
F-statistic	.002	.003	.003	.010	.006	.006

Two tailed significant values indicate: *** p<0.01, ** p<0.05, * p<0.1

Historical ties: The results of this study reveal that historical ties do not affect the decision of the foreign firms related to the establishment and ownership mode choice as well as FDI performance in the context of Ghana. Even though the aim of this study is not to empirically examine the source of FDI to Ghana, the data shows that firms from the UK had more investment in Ghana as compared to other countries. Hence, theoretically, we can say that there is a positive relationship between colonial ties and FDIs inflows. This is because, out of the samples of 75 foreign firms, 19 of the firms originated from the UK while the remaining 56 firms come from 18 different countries. While some researchers (e.g. Makino & Tsang, 2011) suggest that historical ties must not be left out of any comprehensive analysis of FDI decisions, the result of this study shows that historical ties do not provide any explanatory power regarding FDI decisions related to establishment and ownership mode. In addition, the findings of this study indicate that historical ties do not have an impact on subsidiary performance in the context of Ghana.

Continuation of Table 19 OLS Regression related to Performance and Profitability

Variables	<u>Model 3</u> Total Performance with interaction variables	<u>Model 4</u> Profitability with interaction variables	<u>Model 5</u> Total performance with motives	<u>Model 6</u> Profitability with motives
Independent variables				
PSIZE	-.250 (.189)	.113 (.228)	-.238 (.197)	.133 (.229)
INTEX	-.385 (.444)	-.102 (.535)	-.639 (.370)*	-.047 (.430)
MSIZE	.309 (.137)**	.401(.165)**	.346 (.146)**	.431 (.169)*
CULTDIS	-.364 (.156)**	-.349 (.188)*	-.153 (.075)**	-.135 (.087)
CRISK	.202 (.213)	-.076 (.256)	-.154 (.095)	-.204 (.109)*
ESTABLISHMENT MODE	.596 (.281)**	.572 (.339)*	.585 (.289)**	.628 (.336)*
OWNERSHIP MODE	-.729 (.230)***	-.677 (.279)**	-.612 (.263)**	-.544 (.305)*
Control variables				
CONTRISK	.064 (.089)	.014 (.108)	.063 (.095)	-.011 (.110)
PROASSEST	-.303 (.246)	-.620 (.297)**	-.332 (.562)	.065 (.652)
PRELATEDNESS	.310 (.262)	.131 (.316)	.305 (.207)	.242 (.313)
TCEXPRIENCE	.574 (.353)	.170 (.426)	.696 (.364)*	.180 (.422)
COMPETITION	-.020 (.085)	-.045 (.096)	-.025 (.088)	-.047 (.102)
INCENTIVES	.133 (.249)	.703 (.300)**	.261 (.263)	.725 (.305)
AGE: 1990/2000S	.544 (.273)**	.495 (.271)*	.585 (.289)**	.451 (.275)
UK/OTHERS	-.487 (.298)	-.833 (.329)**	-.235 (.290)	-.740 (.337)
Interaction variables				
INTEX X CRISK	-.115 (.066)*	-.043 (.076)		
INTEX X CULTDIS	.077 (.053) *	.082 (.069)		
Motives				
MS			-.087 (.546)	-.780 (.633)
RS			-.041 (.263)	.197 (.263)
ES			.199 (.227)	.011 (.306)
CONSTANT	2.266 (.983)**	2.073 (1.922)	2.318 (.934) **	1.598 (1.084)
N	75	75	75	75
R ²	.475	.397	.435	.399
Adjusted R ²	.326	.217	.235	.206
F-statistic	.001	.014	.007	.020

Two tailed significant values indicate: ***p<0.01, **p<0.05,* p<0.1

Impact of motives on subsidiary performance: The empirical findings of this study reveal that motives did not have any statistically significant impact on subsidiary performance in the context of Ghana (see Table 19, model 5). This is contrary to scholars like Li (2007) who claims that a firm's motivation for international expansion exerts a direct effect on both the firm's multinationality and performance. Dess et al. (1995) suggest that examining performance without considering motivation may not be fruitful. Furthermore, Verbeke and Brugman (2009) point out that by adopting an overly simplified view of what constitutes firm-level performance, and neglecting the firm's motives for internationalization, the effects on performance may remain ill understood. The findings of this study show that motives alone do not determine the success of the firm; however, firm-specific factors, strategies of the firm and location-specific factors are the key factors that could influence the success or failure of subsidiary performance in the context of Ghana.

Continuation of Table 19 OLS Regression related to Performance and Profitability

Variables	Model 7 Total performance, with partial vs. full acquisition	Model 8 Profitability with partial vs. full acquisition	Model 9 Total performance with greenfield IJV vs. WOS acquisition	Model 10 Profitability with greenfield IJV or WOS	Model 11 Total performance with greenfield IJV vs. greenfield WOS	Model 12 Total performance with greenfield IJV vs. greenfield WOS	Model 13 Total performance and partial and greenfield WOS	Model 14 Profitability and partial and greenfield WOS
Independent variables								
PSIZE	-.417 (.202)*	.125 (.265)	-.037 (.450)	-.175 (.404)	-.152 (.604)	-.567 (.752)	-.268 (.239)	-.214 (.302)
INTEX	-.376 (.408)	.567 (.533)	-1.363 (.775)*	-.779 (.695)	-.718 (1.171)	-.777 (1.458)	-.326 (.481)	-.062 (.608)
MSIZE	.313 (.193)	.261 (.252)	.586 (2.30)**	.534 (2.06)**	.326 (2.38)	.466 (2.97)	.409 (2.10)*	.339 (2.65)
CULTDIS	-.260 (.128)*	.056 (.167)	-.332 (1.24)**	-.099 (.112)	-.229 (1.02)**	-.130 (.126)	-.087 (.105)	-.161 (.132)
CRISK	-.185 (.141)*	-.422 (.185)**	-.234 (.150)	-.307 (.135)**	-.165 (.140)	-.162 (.174)	-.220 (.141)	-.172 (.178)
Control variables								
CONTRISK	.236 (.212)	-.153 (.277)	.360 (1.74)**	.340 (1.56)**	.046 (.127)	.098 (.158)	-.060 (.144)	.007 (.182)
PROASSET	-.547 (.478)	-.537 (.625)	-.393 (.415)	-.441 (.373)	-.365 (.347)	-.493 (.432)	-.459 (.355)	-.703 (.443)
PRELATEDNESS	-.464 (.398)	.130 (.520)	.090 (.445)	-.004 (.399)	.573 (.440)*	.067 (.548)	.209 (.348)	.198 (.439)
TCEXPERIENCE	.360 (.364)	-.463 (.476)	1.510 (.760)	1.141 (.682)	.767 (1.174)	1.008 (1.461)	.348 (.462)	.020 (.583)
COMPETITION	.118 (.140)	.170 (.183)	-.219 (.148)	-.120 (.133)	-.022 (.114)	-.023 (.143)	-.002 (.125)	-.093 (.158)
INCENTIVES	.353 (.300)	.893 (.392)**	.406 (.452)	1.155 (.405)**	.181 (.406)	.645 (.506)	.341 (.363)	.622 (.458)
AGE: 1990/2000S	.419 (.369)	.446 (.482)	1.338 (.374)**	1.185 (.336)**	.502 (.355)	.498 (.403)	.438 (.334)	.057 (.421)
UK/OTHERS	-1.199 (.581)*	-1.601 (.751)	-.038 (.758)	-.220 (.317)	.015 (.355)	-.230 (.442)	-.100 (.838)	-.794 (.613)
Motives								
Partial vs. full acquisition	-1.225 (.544)**	-.526 (.711)						
Greenfield IJV vs. WOS acquisition			-2.504 (.758)***	-1.899 (.384)**				
Greenfield IJV vs. greenfield WOS					-.444 (.340)	-.462 (.423)		
Partial acquisition and greenfield WOS							-.003 (.394)	.118 (.497)
CONSTANT	2.713(1.329)*	2.289 (1.737)	1.968 (1.242)	.553 (1.114)	2.959* (1.000)**	2.169 (1.245)	2.624 (1.182)*	2.830 (1.493)
N	27	27	30	30	48	48	45	45
R ²	.794	.706	.730	.795	.374	.285	.341	.288
Adjusted R ²	.554	.362	.478	.603	.109	-.018	.033	-.044
F-statistic	.022	.109	.025	.005	204	.529	.391	.598

Two tailed significant values indicate: ***p<0.01, **p<0.05, *p<0.1

As a result of limited sample size, this study went further to test the mean values of motives in relation to performance, profitability, establishment and ownership modes. The mean of establishment and ownership modes in relation to performance and profitability was also tested. Table 20 shows the means values and significant level.

Table 20. Descriptive statistics (T- Test)

Motive	N	Mean (performance)	SD	P value
Non market- seeking	41	3.34	.965	
Market- seeking	34	3.29	1.013	.838
Non efficiency-seeking	31	3.19	.910	
Efficiency-seeking	44	3.41	1.041	.356
Non resource-seeking	36	3.36	.899	
resource- seeking	36	3.28	1.075	.732
		Mean (establishment mode)		
Non market-seeking	41	0.54	.505	
Market- seeking	34	0.76	.431	.035*
Non efficiency- seeking	31	0.74	.445	
Efficiency- seeking	44	0.57	.501	.126
Non resource- seeking	36	0.72	.454	
Resource- seeking	39	0.56	.502	.158
		Mean (ownership mode)		
Non market-seeking	41	0.29	.461	
Market-seeking	34	0.53	.507	.040*
Non efficiency-seeking	31	0.61	.495	
Efficiency-seeking	44	0.25	.438	.002*
Non resource-seeking	36	0.50	.507	
Resource-seeking	39	0.31	.468	.093

*T-test for the equality of the means

In Table 20, with regard to motives and performance, the p-value associated to the T-statistic is higher than 5%, for all the three motives. The null hypothesis of equality of means cannot be rejected at this significance level. This means that there is no difference in the mean value of performance between the market-seeking firm and non market-seeking firm, efficiency-seeking firms and non efficiency firms as well as resource-seeking and non resource-seeking firms. In the case of motives and establishment mode, the results indicate that the p-value associated to the t-statistic is higher than 5%, for two of the motives (that is efficiency-seeking and resource-seeking). The null hypothesis of equality of means cannot be rejected at this significant level. This means that there is no difference in the mean value of establishment mode between the efficiency-seeking and non efficiency seeking firms as well as resource and non-seeking firms. In the case of

market-seeking on establishment modes, the p-value associated to the t-statistic is lower than 5%. The null hypothesis of equality of means is rejected at this significance level, which means that there is a difference in the mean value of establishment mode choice between the market-seeking firms and non market-seeking. In the case of mean values of motives and ownership modes in Tables 20, the results show that the p-value associated to the T-statistic is lower than 5%, for market-seeking and efficiency-seeking, hence the null hypothesis of equality of means is rejected at this significance level. That is, there is a difference in the mean value of ownership mode choice between the market-seeking firms and non market-seeking, as well as efficiency-seeking and non efficiency-seeking. On the other hand, the p-value associated with the t-statistic is higher than 5% for resource seeking. Therefore, the null hypothesis of equality of means cannot be rejected at this significant level. This means that, there is no difference in the mean value of ownership mode choice between the resource-seeking and non resource-seeking.

As Table 21 shows, the p-value associated to the T-test statistics is higher than 5%. Therefore, the null hypothesis of equality of means cannot be rejected at this significance level. This means that there is no difference in the mean value of performance between the acquisition and greenfield. Also with profitability, the p-value associated to the T-test statistic is higher than 5%, the null hypothesis of equality of means cannot be rejected at this significance level. This means that there is no difference in the mean value of profitability between the acquisition and greenfield. In the case of ownership mode choice, Table 21 indicates that the p-value associated to the T-test statistic is higher than 5%, in both performance and profitability. The null hypothesis of equality of means cannot be rejected at this significance level. So there is no difference in the mean value of performance between the JV and WOS. Likewise, there is no difference in the mean value of profitability between the JV and WOS. As shown in Table 21, the p-value associated to the T-test statistic is higher than 5% for both performance and profitability. Thus, the null hypothesis of equality of means cannot be rejected at this significance level. This means that there is no difference in the mean value of performance between the partial acquisition and full acquisition. Also there is no difference in the mean value of profitability between the partial acquisition and full acquisition. Furthermore, with regard to the JV greenfield and WOS acquisition the result shows that the p-value associated to the T-test statistics is lower than 5% for both performance and profitability. Hence the null hypothesis of equality of means is rejected at this significance level. That is, there is a difference in the mean value of performance between JVgreenfield and WOS acquisition. There is also difference in mean value of profitability between JV greenfield and WOS acquisition.

Table 21. Descriptive statistics (T- Test)

Establishment mode	N	Mean (performance)	SD	P value
Acquisition	27	3.04	.980	
Greenfield	48	3.48	.967	.063*
		Mean (profitability)		
Acquisition	27	3.07	1.072	
Greenfield	48	3.42	1.127	.202
		Ownership modes		
		Mean (performance)		
JV	45	3.49	.944	
WOS	30	3.07	1.015	.070*
		Mean (profitability)		
JV	45	3.42	1.033	
WOS	30	3.10	1.213	.221
		Establishment /Ownership mode		
		Mean (performance)		
Partial acquisition	21	3.19	.928	
Full acquisition	6	2.50	1.049	.441
		Mean (profitability)		
Partial acquisition	21	3.14	1.014	
Full acquisition	6	2.83	1.329	.474
		Ownership /Establishment modes		
		Mean (performance)		
JV greenfield	24	3.71	.908	
WOS acquisition	6	2.50	1.049	.008***
		Mean (profitability)		
JV greenfield	24	3.58	.974	
WOS acquisition	6	2.83	1.329	.708
		Establishment /Ownership mode		
		Mean (performance)		
Greenfield JV	24	3.71	.908	
Greenfield WOS	24	3.25	.989	.101
		Mean (profitability)		
Greenfield JV	24	3.58	.974	
Greenfield WOS	24	3.25	1.260	.311
		Establishment /Ownership mode		
		Mean (performance)		
Partial acquisition	21	3.19	.928	
Greenfield WOS	24	3.25	.989	.836
		Mean (profitability)		
Partial acquisition	21	3.14	1.014	
Greenfield WOS	24	3.25	1.260	.754

*T-test for the equality of the means

However, with respect to the greenfield JV and greenfield WOS the result shows that p-value associated to the T-test statistics is higher than 5% for both performance and profitability. Hence, the null hypothesis of equality of means cannot be rejected at this significance level. It means that there is no difference in the mean value of performance between greenfield JV and greenfield WOS. There is also no difference in mean value of profitability between greenfield JV and greenfield WOS. Last but not least, with regard to the partial acquisition and greenfield WOS the result shows that P-value associated to the T-test statistics is higher than 5% for both performance and profitability. Therefore, the null hypothesis of equality of means cannot be rejected at this significant level. It means that there is

no difference in the mean value of performance between partial acquisition and greenfield WOS. There is also no difference in mean value of profitability between partial acquisition and greenfield WOS. The reason for using test for statistical significance in this study is that, to estimate the probability that a relationship observed in the data occurred only by chance, the probability that the variables are really unrelated in the population, that is to figure out if there observed difference in means is statistical significant. In order to have a good idea of the situation, a large sample size is usually considered as better in order to generalise the result.

9 SUMMARY AND CONCLUSIONS

This chapter begins with a summary of the whole dissertation. The subsequent chapter presents theoretical and managerial implications. This is followed by the limitations and, finally, suggestions for further research are presented.

9.1 Summary and findings of the study

FDI is seen as an engine of growth as it provides the much-needed capital for investment, increases competition in the host-country industries, and aids local firms to become more productive by adopting more efficient technologies or by investing in human and/or physical capital. FDI contributes to growth in a substantial manner because it is more stable than other forms of capital flows. Furthermore, FDI can facilitate access to foreign markets and generate technological and efficiency spillover to local firms. It is expected that, by providing access to foreign markets, transferring technology and generally building capacity in the host country, firms will inevitably improve the integration of the host country into the global economy and foster growth. Additionally, FDI is also becoming a key strategy and an integrated element of business strategy in an increasing number of firms. While international production practices are still unfamiliar to the firms in certain sectors, a great number of firms within industries such as automobile, electronics and software have carried out international production for many years. As a result of globalization, an increasing number of firms are confronted with the pressure to internationalize their production resources in order to retain competitiveness.

The academic interest in FDIs has been increasing in recent years. However, there has been very little research into the question of how foreign manufacturing firms have carried out their FDI operations in African markets. There have been very few studies that have applied the eclectic paradigm and transaction cost frameworks to study the FDI of foreign manufacturing firms in Africa (e.g. Bhaumik et al. (2005)). Besides, this study develops an integrated framework combining the two theories into a relevant framework for studying manufacturing FDIs in developing countries. There is also a managerial knowledge gap about business in Africa. Many African countries including Ghana have recently implemented economic liberalization measures and opened their economies to foreign investment. There is the need to empirically analyze the relationship between the changing business and institutional environment and the behavior and performance of foreign investors. Policy makers can also benefit from understanding these dynamics.

To fill the above-mentioned research and managerial knowledge gaps, the present study empirically investigates how the ownership-specific (O), location-specific (L), internalization (I) and transaction-specific factors have influenced the motives, establishment, ownership mode and the performance of foreign manufacturing affiliates in Ghana from 1994 to 2008. The overall purpose of the study is to increase academic understanding of the determinants of motives, entry modes choices and subsequent performance of foreign manufacturing firms in Ghana.

Chapter one discusses the background and defines the research objectives and questions of the study. The expected contributions and scope of the study are discussed. The chapter continues by providing definitions of the main terms used in this dissertation and concludes by explaining the structure of this dissertation.

Chapter two discusses the theoretical framework and builds bases for the reader to understand the main theoretical perspectives used in the dissertation. It presents the relevant concepts of the eclectic paradigm and transaction cost framework within which the factors influencing the FDI choices are evaluated.

Chapter three discusses the strategic motives of foreign investors in line with the eclectic paradigm and transaction cost factors. It presents a classification of investment motives based on IB theories. The chapter provides an understanding of the relationship between the strategic motives of firms and the business environment prevailing in a developing country like Ghana.

Chapter four and five theoretically investigate how the ownership-specific, location-specific, internalization and transaction cost specific factors influence the established ownership mode of a foreign firm in Ghana. Then each of the above-mentioned factors is reviewed in detail in different subchapters. Based on the previous theoretical and empirical literature on the establishment mode strategies, several hypotheses are developed addressing the components of the eclectic paradigm and transaction costs in relation to the establishment mode choice of the foreign firms in Ghana.

Chapter six theoretically investigates how the ownership-specific and location-specific factors affect performance. This chapter also investigates the impact of the establishment and ownership modes on the performance of foreign firm's subsidiaries in Ghana. Each of the above-mentioned factors is reviewed in detail in different subchapters. Based on the extent of theoretical and empirical literature, hypotheses were developed regarding the components of the eclectic paradigm and transaction cost, establishment and ownership modes on the total performance of the foreign subsidiaries in Ghana.

Chapter seven presents the research methodology of the study and the characteristics of the studied firms. This chapter provides a discussion of the sample and an overview of the statistical procedure to be applied. In addition, the population of the firms and the types of investment in the sample are discussed. Finally, the operationalization of the dependent, independent and control variables related to motivation, establishment modes, ownership modes, and subsidiary performance of foreign manufacturing firms in Ghana is presented.

Chapter eight presents the empirical findings of the study. It provides descriptive statistics showing correlations among all the dependent, independent and control variables. Regression results for motives, establishment mode, ownership mode and performance are also presented in this chapter. The chapter also discusses these findings in relation to the findings of previous studies addressing similar issues. Tables 22-25 provide the summary of all the findings of the study. First, with regard to motive, the results indicate that four variables were statistically significant in the total sample. The empirical results reveal that a perceived large market size increases the probability of foreign firms undertaking *MS* FDIs. In contrast, perceived large cultural distance leads to a decrease in the probability of foreign firms undertaking *MS* FDIs in the context of Ghana. The findings also reveal that international experience leads to a decrease in the probability of the foreign firms undertaking *MS* seeking, while perceived large market size leads to a decrease in *ES*-seeking FDIs. These results were opposite to the prediction of the hypotheses. Furthermore, the results reveal that firm size, perceived high country risk and perceived high contractual risk were non-significant (see Table 22).

Table 22. Summary of the hypotheses tested related to motives

Hypotheses		Results
H1	PSIZE (There is a positive relationship between firm size and market- seeking and/or efficiency- seeking FDI).	Not supported
H2	INTEX (There is a positive relationship between international experience and market- seeking and/or efficiency- seeking FDI).	Not supported: significant at the $p < 0.1$ level. opposite to the prediction of the hypotheses
H3	MSIZE (There is a positive relationship between international experience and market-seeking and/or efficiency-seeking FDI).	Partially supported: significant at the $p < 0.05$ level. Not supported. Significant at the $p < 0.01$ level.
H4	CRISK (There is a negative relationship between perceived investment risk and efficiency seeking FDI).	Not supported
H5	CULDIS (There is a negative relationship between perceived cultural distance and market-seeking and/or efficiency-seeking FDI).	Partially supported: significant at the $p < 0.1$ level.
H6	CONTRISK (There is a negative relationship between perceived contractual risk and resource- seeking FDI).	Not supported

Furthermore, with regard to establishment mode, the results indicate that six out of the ten hypotheses were statistically significant in the total sample. The empirical results reveal that large firm size, international experience and perceived large market size lead to the choice for an acquisition mode of entry in Ghana by foreign firms. Similarly, high cultural distance, high country risk, and high proprietary assets lead to the choice of greenfield mode of entry in the context of Ghana. On the other hand, the results reveal that contractual risk is non-significant in the model. With regard to the impact of motives on establishment mode choice, the results indicate that motive was non-significant with regard to the choice of establishment mode; hence it does not have any impact on the establishment mode in the context of Ghana (see Table 23).

Table 23. Summary of the hypotheses tested related to the establishment mode

Hypotheses		Results
H7	PSIZE(Firm size is positively related to a acquisition mode of establishment)	Supported: significant at the $p < 0.01$ level
H8	INTEX (International experience is positively related to an acquisition mode of establishment)	Supported: significant at the $p < 0.1$ level
H9	MSIZE (Market size is positively related to an acquisition mode of establishment)	Supported: significant at the $p < 0.05$ level
H10	CRISK (There is a positive relationship between perceived investment risk and greenfield mode of establishment).	Supported: significant at the $p < 0.05$ level
H11	CULTDIS (There is a positive relationship between perceived cultural distance and greenfield mode of establishment).	Supported: significant at the $p < 0.05$ level
H12	CONTRISK (There is a positive relationship between perceived contractual risk and greenfield mode of establishment).	Not supported
H13	PROASSETS (There is a positive relationship between perceived contractual risk and greenfield mode of establishment).	Supported: significant at the $p < 0.05$ level
H14	Market-seeking (There is a negative relationship between MS and a greenfield mode of establishment).	Not supported
H15	Resource-seeking (There is a negative relationship between RS and greenfield mode of establishment).	Not supported
H16	Efficiency-seeking (There is a positive relationship between ES and greenfield mode of establishment).	Not supported

**implies that the converse is supported since greenfield was coded as 1 & acquisition was coded as 0 in the regression model*

With regard to the ownership mode, the results indicate that three out of ten hypotheses were statistically significant in the total sample. The empirical results of this study show that high contractual risk in the context of Ghana leads to the preference for a WOS mode of ownership by foreign firms. Similarly, the results reveal that firm size, international experience, perceived large market size, perceived high country risk, perceived high cultural distance and proprietary assets

are non-significant in the context of Ghana. In addition, with regard to the impact of motives on ownership mode choice in the context of Ghana, the results indicate that foreign firms investing in Ghana with *ES* and *RS* motive lead to a preference for an *JV* mode of ownership (see Table 24).

Table 24. Summary of the hypotheses tested related to ownership mode

Hypotheses		Results
H17	PSIZE (There is a positive relationship between firm size and WOS mode of ownership).	Not supported
H18	INTEX (There is a positive relationship between international experience and WOS mode of ownership).	Not supported
H19	MSIZE (There is a positive relationship between perceived market size and WOS mode of ownership).	Not supported
H20	CRISK (There is a negative relationship between perceived investment risk and WOS mode of ownership)	Not supported
H21	CULTDIS (There is a negative relationship between perceived cultural distance and WOS mode of ownership).	Not supported
H22	CONTRISK (There is a positive relationship between perceived contractual risk and WOS mode of ownership.)	Supported: significant at the $p < 0.05$ level
H23	PROASSET (There is a positive relationship between proprietary assets and WOS mode of ownership).	Not supported
H24	Market-seeking (There is a positive relationship between MS and WOS mode of ownership)	Not supported
H25	Resource-seeking (RS is positively related to a JV mode of ownership)	Supported: significant at the $p < 0.05$ level
H26	Efficiency-seeking (ES is positively related to a JV mode of ownership)	Supported: significant at the $p < 0.05$ level

**implies that the converse is supported since wholly owned was coded as 1 & JV was coded as 0 in the regression model*

Finally, with regard to performance, the results indicate that six out of eleven hypotheses were statistically significant in the sample for performance. The empirical results reveal that a perceived large market size, greenfield, *JV* and greenfield-*JV* had a positive impact on the performance of foreign firms in Ghana. In contrast, perceived high country risk and perceived large cultural distance had

negatively impacted on total performance of foreign subsidiary firms in Ghana. On the other hand, international experience was found to be statistically significant but opposite to the prediction of the hypothesis while the firm size was found to be non-significant in the context of Ghana. In the case of profitability, the results reveal that perceived large market size, greenfield mode of entry and JV mode of ownership had a positive impact on profitability. In contrast, perceived high country risk negatively impacted on profitability, while firm size and international experience were non-significant in the context of Ghana (see Table 25).

Table 25. Summary of the hypotheses tested related to overall performance and profitability

Hypotheses		Results	
H27	PSIZE (There is a positive relationship between parent firm size and FDI performance).	Not supported	Not supported
H28	INTEX (There is a positive relationship between international experience of the foreign firm and FDI performance).	Not supported: significant at the $p < 0.1$ level. Opposite to the prediction of the hypotheses	Not supported
H29	MSIZE (There is a positive relationship between perceived market size and FDI performance).	Supported: significant at the $p < 0.05$ level	Supported: significant at the $p < 0.05$
H30	CULTDIS (There is a negative relationship between perceived cultural distance and FDI performance)	Supported: significant at the $p < 0.05$ level	Not supported
H31	CRISK (There is a negative relationship between perceived investment risk and FDI performance).	Supported: significant at the $p < 0.1$ level	Supported: significant at the $p < 0.05$
H32	Establishment mode: There is a positive relationship between the greenfield establishment modes and FDI performance	Supported: significant at the $p < 0.05$ level	Supported: significant at the $p < 0.1$ level
H33	Ownership mode: Joint venture is positively related to FDI performance	Supported: significant at $p < 0.01$ level	Supported Significant at the $p < 0.05$ level
H34	Greenfield JV vs. WOS. (There is a positive relationship between joint venture ownership in greenfield mode of investments and FDI performance)	Supported: significant at the $p < 0.05$ level	Supported: significant at $p < 0.1$ level
H35	Full vs. Partial acquisition. (There is a positive relationship between WOS ownership and FDI performance in acquisition mode of investments)	Not supported	Not supported

H36	INTEX X CRISK (International experience positively moderates the impact of perceived country risk on FDI performance)	Not support: significant at the $p < 0.1$ level.	Not supported:
H37	INTEX EXP X CULDIS (International experience positively moderates the impact of perceived high cultural distance on FDI performance)	Not supported	Not supported

**implies that the converse is supported since JV was coded as 0 & WOS was coded as 1 in the regression model*

Table 26. Distribution of motives, establishment mode, ownership mode and performance mean of the sample

Motive	Frequency	Percentage	Mean (performance)
Non market- seeking	41	54.7	3.34
Market- seeking	34	45.3	3.29
Non efficiency- seeking	31	41.3	3.19
Efficiency- seeking	44	58.7	3.41
Non resource- seeking	36	48.0	3.36
Resource- seeking	39	52.0	3.28
Establishment mode			
Acquisition	27	36.0	3.04
Greenfield	48	64.0	3.48
Ownership mode			
JV	45	60	3.49
WOS	30	40	3.07

Table 26 shows that the number of firms that opted for market-seeking investments was 45.3% of the sample and their performance mean value was 3.29. The number of non marketing-seeking firms constituted 54.7% of the sample and their performance mean was 3.34. With regard to efficiency 58.7% made efficiency-seeking investments with the performance mean value of 3.41. Non efficiency-seeking firms accounted for 41.3%, and their performance mean value was 3.19. In relation to resource-seeking the results reveal that 52% of the sample made resource-seeking investments with a performance mean value of 3.28, while non resource-seeking firms were 48% with performance mean value of 3.49. In the case of the establishment mode, the result reveals that 64% enter the market through greenfield investment, with a mean performance value of 3.48. 36% of the firms enter through acquisition and they have a performance mean value of 3.04. With regard to the ownership mode, 60% used JVs and they had a perfor-

mance mean value of 3.49, while 40% invested in WOS with the mean performance value of 3.07

9.2 Conclusion of the study

FDI business environments in African countries have been perceived to be economically and politically unstable, and FDI inflows, outside the natural-resource extracting sector, remained relatively sparse (MIGA 2011). This is also confirmed by the World Investment Prospect survey conducted by UNCTAD in 2009, in which multinational investors indicated that they continue to have low preference for Sub-Saharan Africa as a future investment location (UNCTAD 2009a). The image of Africa as a location for foreign direct investment has not been favourable (Owusu & Habiyakare 2011).

Apart from low inflows of FDI to the region, academic interest with regards to the MNE strategies and performance in Africa is very limited. However, there is an immense body of literature on international entry mode research done in the advanced world. A growing number of studies have explored the entry modes of MNCs entering emerging markets. In addition, many studies have focused on the performance implications of entry modes examined from the perspective of the parent firm. Based on the presented gap, the main research questions of the study were stated as follows: *What factors motivate and influence the FDI choices of MNEs with regard to motives, establishment mode and ownership mode, and how do they impact subsidiary performance in the context of Ghana?* Thus this study intends to fill the gap by examining the FDI strategies of MNEs and their performance implications in the context of Ghana.

The findings of this study reveal that the large market size of a host country has significant impact and leads to an increase in investment inflow, while the large cultural distance leads to decreased inflows of investment. The results also show that firm size is non-significant to both the marketing and efficiency-seeking factors and, hence, they do not have any impact in the context of Ghana. The result also show that international experience of MNEs leads to decreased market-seeking FDIs, while large market size leads to decreased efficiency-seeking FDIs.

With regards to establishment mode, the empirical data reveal that international experience, large firm and perceived large market size lead to a preference for acquisition mode while high country risk, high cultural distance and proprietary assets lead to a preference for greenfield mode of investment. The results also

show that incentives lead to preference for greenfield investment, while MNEs entering the Ghanaian market during the 1990s period prefer acquisition mode of entry. The results also show that motives do not have any impact on establishment mode choice. For the ownership mode choice, the results reveal that high contractual risks in the country lead to MNEs choosing WOS. The results also show that firm size, international experience, market size, country risk, cultural distance and proprietary assets do not lead to any of the ownership mode choice. Hence they do not have any impact on mode of ownership in the context of Ghana. With regard to the control variables, the result shows that product relatedness leads to a preference for JV mode of ownership. On the other hand, timing of entry, incentives, target country experience, UK/other countries or origin of the investors do not lead to any of the above-mentioned choices. Hence, these variables do not have any impact on the ownership mode choice in the context of Ghana. In relation to motive and ownership mode, the results reveal that efficiency-seeking and resource-seeking MNEs lead to a preference for JV mode of ownership. However, market-seeking motives do not lead to any of the choices and hence do not have any impact on the mode of ownership. Also, the results show that the interaction variables do not have any effect on mode of ownership choice.

With regards to performance, the results reveal that independent variables such as large market size, greenfield and JV lead to better performance, while high cultural distance and high country risk leads to a decrease in the performance of MNEs in the context of Ghana. Furthermore, the results reveal that the international experience leads to a decrease in performance, while target country experience leads to an increase in performance. This shows that the experience acquired by the MNEs in a different geographical context cannot be applied in a different country as a result of differences in institutional set ups. The key issue with regard to experience is that previous experience with the host market is very important because it affects performance positively. In relation to the impact of control variables on performance, the results show that target country experience and MNEs that entered the Ghanaian market between 2000 and 2008 led to better performance, while proprietary assets led to decreased performance. Product relatedness, competition, incentives, UK/other countries of origin of the investors do not have any impact on performance. With regard to the impact of motives on performance, the result indicates that none of the motives were significant and, hence, do not have any impact on performance. In relation to interaction terms and performance, the results reveal that interaction variables between international experience and country risk were significant but opposite to the prediction of the hypothesis, while interaction effects between international experience and cultural distance were non-significant. In the case of the combined effect of choices between establishment and ownership mode, the result indicates that the

MNEs entering Ghana through greenfield investment and JV mode of ownership achieve better performance as well as those that enter through partial acquisition.

A summary of the results is shown in Table 27, which indicates that market size and cultural distance were significant in three of the models. They had influence on motive, establishment and performance as predicted by the theories. Furthermore, country risk was significant in two of the models. It had influence on establishment mode and performance based on the prediction of the theories. In addition, proprietary asset was also significant in two of the models. It had influence on establishment mode in accordance with the theories, while it had negative influence on performance. Moreover, the following variables, firm size, contractual risk, product relatedness, target country experience, incentives, timing of entry, efficiency-seeking and resource-seeking FDI were significant in one model. Firm size and incentives had influence on establishment mode choice, while contractual risk, product relatedness and time of entry had influence on ownership mode choice. Furthermore, target country experience had influence on performance. In addition, competition and UK/other countries of origin of the investor were not significant in any of the models. The findings lead to a general inference that in order to present a more detailed picture of business activities in Ghana, there is a need for researchers to extend the eclectic paradigm and transaction cost theory with lessons from some other theories like institutional theory to capture the extent with which local environmental forces affect MNEs' investment decisions (see Figure 3 for the supported hypotheses of this study).

9.3 Theoretical and managerial implications

The findings of this study provide theoretical and practical implications regarding the entry strategies of MNEs to Ghana, particularly the relationship among the firms' entry mode choices and performance implications. It contributes by focusing on foreign firms investing in Ghana, where the market conditions are very different from those of the multinational's home country. The integrated analytical model in this study, which draws on insights from the eclectic paradigm and the transaction cost theory, has proved to be useful by providing a framework on MNCs' strategies in the context of Ghana. Research in FDI strategies and subsidiary performance has largely focused on advanced and emerging markets; however, this study contributes to the current body of knowledge surrounding the FDI behaviour of MNCs by combining the three dimensions of ownership-specific, location-specific, internalization specific and transaction cost theory in the context of Ghana.

The theoretical contributions of this dissertation are also reflected by the fact that it is one of the first studies to use OLI paradigm and transaction cost theory in addressing FDI strategies and performance in a developing country. This study shows that all three proposed specific factors of the OLI paradigm do not have equal level of importance for FDI made in a developing country like Ghana. Regarding the establishment mode decision, the empirical results of the study imply that in Ghana, the establishment mode decisions are purely efficiency-driven as theorized by transaction cost theory and eclectic paradigm and supported by numerous past studies. These findings add to the existing literature and broaden the scope of the current literature from the developed and emerging economies to the developing country.

In ownership decisions the result of the study demonstrated that ownership choice in Ghana is an intrinsic part of an MNEs establishment - the empirical results reveal that perceived high contractual risk leads to foreign firms choosing WOS. This suggests that firms under a high level of contractual risk of the host country are more likely to choose a high control ownership mode. In a developing country like Ghana, the overall predictive power of the eclectic paradigm and transaction cost theory in relation to the ownership choice is limited.

Another contribution of this study is that the notion of product relatedness as a factor influencing the likelihood of a firm's WOS investment decisions is not as consistently positive as previous research has argued. Rather, the firm's investment decision in choosing a WOS form of ownership is sometimes dependent on the level of uncertainties it faces in the foreign market. Thus, a foreign market with weak institutions poses high uncertainty levels as is the case of Ghana where the institutional apparatus is not yet well developed as compared to Western developed economies. Therefore, as the findings of this study suggest, foreign subsidiaries with product lines the same as the parent company prefer to choose JV mode of ownership contrary to the prediction of the theories.

In relation to performance, the empirical results reveal some interesting findings and contribute to the current literature. One of the most intriguing results in this area is the lack of support for certain predictions by the eclectic paradigm and transactions cost theory. It was found in this study that proprietary assets have a negative effect on performance, which contradicts the prediction of both the eclectic paradigm and transaction cost theory. One explanation is that technology transfer in developing country like Ghana may be very difficult because of the weak institutional systems to protect these assets. Another fascinating example is the international experience and target country experience. Both experiences have opposite effects on subsidiaries performance in the context of Ghana. While in-

ternational experience has an opposite (negative) effect on the performance, the target country experience has a positive effect on performance. The findings in relation to international experience confirm the argument put forward by scholars (e.g. Verbeke et al. 2010) as firms gradually increase their scope of their international activities, the ownership advantage becomes more specific to the firm but less specific to any location. Hence the international experience acquired by the MNEs in different regions cannot be easily transferred to a different environment. These findings contradict the predictions of both the eclectic paradigm and transactions cost theory that accumulated experience leads to the success of the subsidiaries. The findings reveal that in developing country like Ghana, where the institutions systems are very weak and there are high uncertainties, country experience has more predictive power in relation to performance than the international experience.

Furthermore, an exploration of the interactions terms and combined effect of entry strategies on subsidiaries performance brings a new and useful perspective to both the eclectic and transaction cost theories. The results reveal that international experience does not moderate the impact of country risk on subsidiary performance in Ghana. This finding offers another addendum here, suggesting that the moderating influence of international experience does not really matter in the context of a developing country. The fact that their institutional structures are weak and uncertainties are high makes transfer of these firms' level of advantages not applicable.

Transaction cost theory claims that greenfield investments are riskier than acquisitions. Thus, it propounds that acquisitions would perform better than greenfield investments. The findings of this study imply, however, that in the context of a developing country like Ghana, where the institutional structures are weak or not well-developed, greenfield and JV perform better than acquisition and WOS. This emphasizes the importance of institutional factors. Thus, extant theory should be reformulated in the case of developing countries to take cognizance of the role of weak institutions. Based on the findings of this study, in order to present detailed information about FDI strategies and performance implication in developing countries like Ghana, there is a need for researchers to extend the eclectic paradigm and transaction cost theory by incorporating theories such as institutional theory in order to arrive at comprehensive FDI decisions. The incorporation of institutional theory into eclectic paradigm and transaction cost theory will broaden the scope of these two theories and would be more applicable in developing economies where high environmental uncertainty and weak institutional frameworks prevail. The findings of this study are significant because they help further in assessing the applicability of the theories in a different environment.

Managers making an entry mode choice face a difficult and challenging decision. Previous research has repeatedly shown that companies do not make a conscious and deliberate cost and benefit analysis of entry modes (Anderson & Gatignon 1986; Buckley, Devinneney & Louviere 2007) and, as a result, inappropriate entry modes are often selected. The findings of this study highlight the trade-offs that may be related to the efficiencies of operation modes at different levels, and types of uncertainties faced in different environments of which managers must be aware of. Thus, if managers consider it important to be able to cope with uncertainties with the least possible transaction costs, a careful evaluation of different uncertainty types in the target country is recommended when making an entry mode decision. Also, it is often difficult for managers to achieve optimal performance given the complexity that characterizes the real world, and the bounded rationality that they possess. Thus, more satisfactory rather than an optimal solution seems to be the best that can be achieved. Nevertheless, assuming that global markets are reasonably competitive, in the long run, competitive force will eliminate those firms that make FDI decisions inconsistent with value maximization. Hence, it is of critical importance that management decision-makers consider the relative weight of the ownership-specific, location-specific, internalization and transactions cost specific factors identified herein when making FDI choices in the context of Ghana and developing economies as a whole.

Furthermore, this study will assist managers to have a better understanding of the importance of each variable in influencing motives, establishment mode, ownership mode and its effect on the performance of foreign subsidiaries. Hence, managers can prioritize the relevant variables in evaluating their entry mode alternatives and their impact on performance in the context of developing economies. This is important because it allows managers who often have resource constraints to focus on the variables most relevant to their entry mode decision without going through an exhaustive entry mode analysis. Fourth, this study also helps managers to make financially sound entry mode choices and allows expansion of the entry mode analyses to gain a broader understanding of investment decision-making from a developing economy perspective in the context of Sub-Saharan Africa.

In addition, the findings of this study reveal that perceived market size and perceived cultural distance were the two variables which have the biggest impact on the performance. Hence decision makers should critical look at these two variables any time a company wants to enter a Sub-Saharan African or developing country. Cultural distance is a critical factor impacting on performance and, thus, companies should understand its role in decisions regarding motive and establishment mode choice. They should implement strategies to reduce cultural distance. Such strategies should include training of personnel, hiring of capable staff,

and building relations and networks with local companies who know the important actors in the market. Furthermore, market size is critical for motives, establishment mode choice and significantly impacts performance. Thus companies planning FDI investment to any developing country should analyse the market thoroughly. They should analyse market size from both the destination market, as well as regional and global markets which they can reach from the investment location.

The findings emphasize to managers that international experience has negative impact on performance while target country experience has positive impact. There is a need for managers to know that experience acquired in different contexts cannot be easily applied in the new market. Many MNEs rely on their past success in other countries and use this as a basis to enter a different country without proper preparation, forgetting that the different countries with different institutional structures make it difficult for MNEs to transfer those experiences acquired in different contexts to the new market to enable them to operate efficiently. Hence there is a need for MNEs from the outset to recognize the limited transferability of some of these ownership advantages when engaging in international strategic planning.

Finally, the findings of this study will provide policy implications to Ghana and other developing countries to implement the necessary policies to attract increased FDI inflows. The findings of this study show that high country risk has negative impact on the subsidiaries' performance and it will discourage MNEs to set up their subsidiaries in the country. Hence, there is need for policy makers in Ghana to design and implement policies which will reduce the investment risk in the country. This will boost the confidence of the MNEs to set up subsidiaries in the country. The findings of this study may also help the Ghana government to identify and prioritise these problems, so that they may move to solve them more efficiently. It is also hoped that these findings will assist other African governments as well in recognizing and identifying factors that might discourage MNEs from investing in their economies.

In a globalizing world, where MNCs can enter and exit with relative ease, government policies are currently more important than in the past (Moran 1999). Hence policy makers in Ghana should develop policies that are both friendly to investors and that maximize the contribution of FDI to development. In order for the policy makers to attract FDI into the country, there is a need to upgrade national laws to meet international standards. A transparent and non-discriminatory regulatory environment, effective competition policies and an efficient judicial system, and low and stable tax rates are also important. Fiscal incentives may

increase the attractiveness of a country but cannot substitute for the lack of a healthy FDI environment. Promotion activities may also help attract FDI but only when the basic framework is in place, including equal treatment of foreign and local investors and fast dispute-settlement mechanisms.

Policy makers in Ghana should also invest in the development of human capital. Currently low-cost, unskilled labour is becoming less important in attracting necessary FDIs. There is a greater demand for qualified human capital with diverse modern skills that can cope with emerging technologies. Equally important is labour market flexibility including the use of needed expatriate personnel.

Table 27. Summary hypotheses and significant variables
 • Bold hypotheses are significant and supported
 • Italicized hypotheses are significant but opposite to the prediction of the hypotheses

INDEPENDENT VARIABLES	DEPENDENT VARIABLES										
	MOTIVES		ESTABLISHMENT MODE		OWNERSHIP MODE		PERFORMANCE		PROFITABILITY		
	MS	ES	RS	ACQUISITION	GREENFIELD	JV	WOS	POSITIVE	NEGATIVE	POSITIVE	NEGATIVE
Ownership specific factors	H1	H1		H7			H17	H27		H27	
Firm size	H2	H2		H8			H18		<i>H28</i>	H28	
International experience											
Location specific factors											
Market size	H3	H3		H9			H19	H29		H29	
Cultural distance	H5	H5		H11		H21			H30		
Country risk		H4		H10		H20			H31		H31
Internalization/transaction cost specific factors											
Contractual risk			H6		H12		H22				
Proprietary assets				H13			H23				
Establishment mode											
Acquisition											
Greenfield								H32		H32	
Ownership mode											
JV								H33		H33	
WOS											
Motives											
MS				H14			H24				
RS				H15		H25					
ES					H16	H26					
Combined effect											
Greenfield JV								H34		H34	
WOS Acquisition								H35		H35	
Interaction effect											
Inter. exp x Country risk								<i>H36</i>		<i>H36</i>	H36
Inter. exp x Cultural distance								H37		H37	

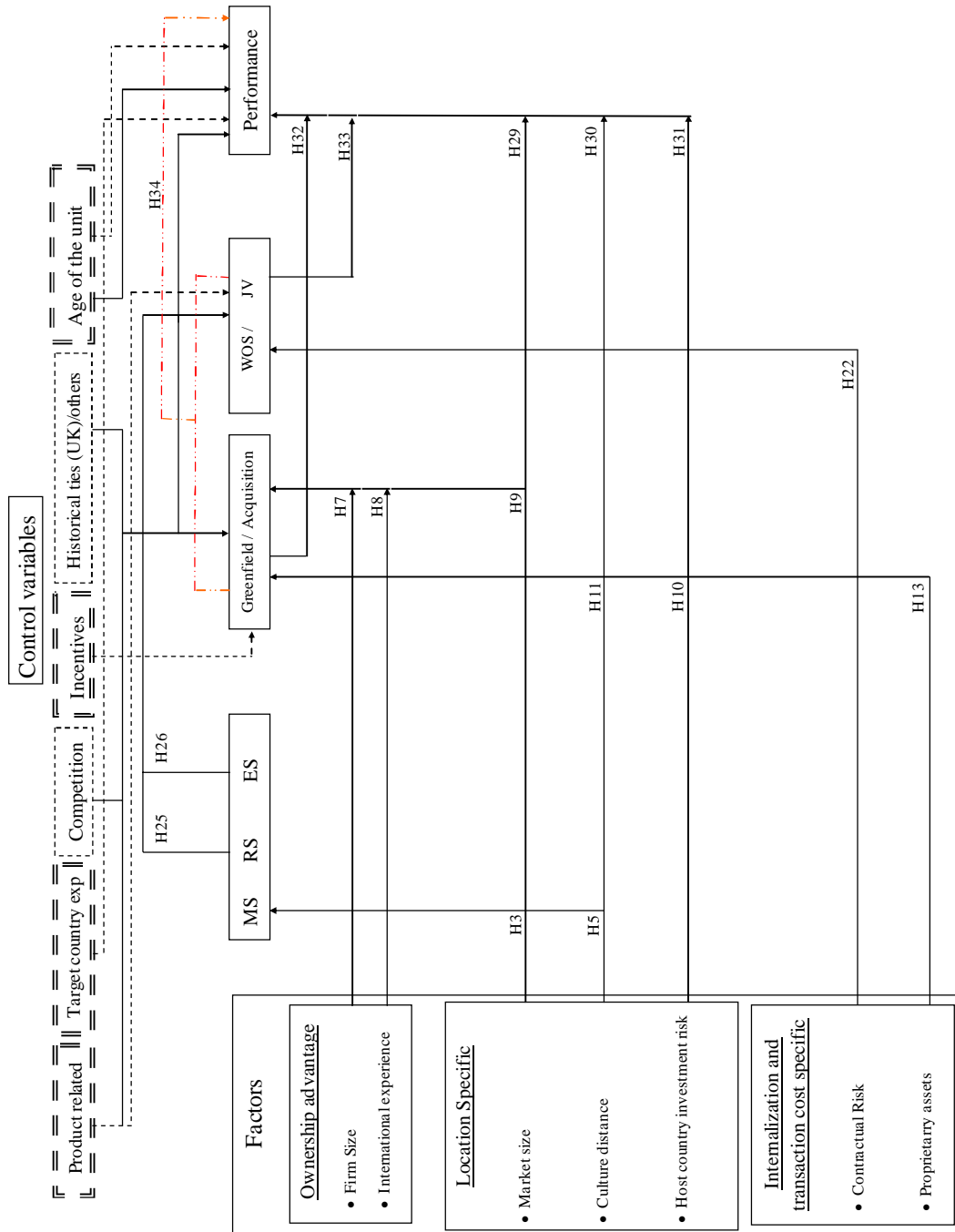


Figure 3. Research model in the context of Ghana

9.4 Limitations and suggestions for future research

Limitations

The first limitation of this study is the small sample size ($n=75$). The limited sample size means that generalizing the results to wider populations is problematic. In addition, the sample was confined to foreign manufacturing FDI in Ghana for the time period 1994–2008, which may also cause problems for generalization. Second, there are a great number of possible variables that could influence FDI behaviour; however, this study only considers a few of these variables in the light of data availability and ease of measurement procedures. It must be emphasized that it would be impossible to include all the variables in one study, even if we are able to identify them. Therefore, this limitation could be considered partly as a result of necessary decisions about the resources available for this research. Also, as the data was collected over a short period in time, we can neither draw conclusions about causation from them, nor can we measure the change over time.

Moreover, although the eclectic paradigm is widely accepted as an explanation for international production, few researchers have challenged the validity of the paradigm. The criticism of the theory has come from Itaki (1991). Itaki claimed that an ownership-specific advantage actually comes from an internalization advantage. Therefore, it is redundant to consider these two separate determinants. He also points out that the ownership advantages cannot be separated from the location-specific advantages, and they are simultaneously determined. Furthermore, Dunning's theory has been described as ambiguous regarding the sources of location advantage. Fifth, transaction cost theory has been criticized for the fact that the influence of psychic distance and institutional backgrounds are absent in the discussion of entry mode decisions. This is mainly due to the difficulties in understanding that social and cultural factors are only a part of the so called transaction atmosphere and that interaction effects between socio-cultural and transaction cost factors cannot be determined in this simplified model (Schaefer 2002). It has also been criticized for being unable to explain the evolution of entry modes (Lu 2002) because it just offers a static view of organizational activities characterized by the absence of adequate social bonds. In addition to these facts recent scholars have begun extending transaction theory by including cultural context and institutional context factors.

Since performance was measured by using managers' subjective assessment of total performance, it may not represent the actual performance of the firms due to the subjective nature of managerial responses. It is possible that managers may not wish to reveal information which they think it is very crucial for the company. Hence, they might end up providing answers to certain questions in the questionnaire which might not reflect the true position of the firm.

Furthermore, this study does not fully address the interrelationship between the establishment and ownership mode choices. The issue of whether establishment modes choices are sequential, simultaneous or decisions that constrain each other needs more attention. Furthermore, as a result of limited sample size and insufficient number of respondents per industry, this study is unable to investigate in depth the industry-level factors that might influence the decision making of MNEs with regard to the establishment and ownership modes choices.

In addition, lack of information about the absolute and relative sizes of FDI prevented us from including competition-related information. Last but not least, since this study applies both the eclectic paradigm and transaction cost theory, the arguments for motives and operation mode choice are based on efficiency considerations and, thus, it is assumed that firms are motivated to make their motives, establishment and ownership mode decisions based on the efficiency criterion. However, firms may be driven to enter and operate in a specific target country by some other motives such as seeking new markets or developing new capabilities. This means that the choice criteria for motives, establishment and ownership choices may be different. Therefore, the applicability of the framework in the context of Ghana is limited based on the efficiency criterion.

Suggestions for future research

Although this dissertation makes a number of contributions, there are a number of issues that need to be addressed further. The study considers only the investment behaviour of foreign manufacturing firms in Ghana, which may have little in common with advanced economies in terms of market, resources, industrial and corporate structures and strategies. It is therefore recommended that the present study be extended to different industries in order to analyze the distinct investment characteristics of each industry. It would also be interesting to explore the investment behaviour of service firms and compare it to manufacturing firms. Since the focus of this study is Ghana, it would also be interesting to use the same method and examine the behaviour and motivations of foreign manufacturing firms in other African or emerging countries in the different regions and compare them with Ghana. This may provide an opportunity to understand issues about different country regulations, risks, and the role of the host government and, particularly, FDI behaviour in general.

The analyses in this study were cross-sectional in nature. The study did not capture the longitudinal changes in the ownership levels and subsequent performance. It is therefore recommended that future studies should be conducted longitudinally in order to capture the impacts of changes in equity level on performance. Future studies on establishment and ownership choice should explore in

what situation will the environmental uncertainty be a more important predictor of the MNEs establishment and ownership mode than the MNEs mode-specific experience or their predominant firm level know-hows, especially in the case of developing economies where the institutional set ups are not well developed as compared to the developed economies.

Another critical question remains to be addressed: how do firms determine the importance of each independent variable compared to the other variables in making entry mode choice decisions? If one variable suggests greenfield modes, another one acquisition or wholly owned modes, and a third one joint venture, how does a firm determine the weight to give each of the variable determinants? Future research studies could go a long way in improving our understanding of entry mode decision-making by focusing on the trade-offs made by managers in evaluating a difference in entry mode criteria. This study is restricted to the behaviour and performance of foreign firms from numerous countries in one host market, Ghana. Future studies should conduct more extensive tests using samples of foreign firms investing in multiple Sub-Saharan African countries.

Moreover, subjective measures which are based on the perception of managers concerning affiliate performance could be combined with objective measures such as return on investment (ROI) and, possibly, market-based measures such as the wealth gain surrounding FDI announcements. Another opportunity may include following subsidiary performance over time and establishing the antecedents of shifts in performance, such as the changed strategy of the affiliate or location variables such as the host government attitudes. The results of this study show that the eclectic paradigm and transaction cost theory do not have the magnitude to capture the true dynamics of FDI in developing economies where the institutions framework is weak. Thus, future studies could apply institutional theory or incorporate institutional theory into eclectic paradigm and transaction cost theory to examine the variable used in this study in developing countries. Additionally, future research should analyse changes in ownership structures and its impact on subsidiary performance. Finally, most of the investments made by the MNEs firms were JVs than WOS; future studies should conduct more detailed comparison between minority-owned, equal share, and majority-owned JVs. Future studies can also conduct more detailed analysis of the criteria MNEs use to select their partners in developing country such as Ghana, and how this affects performance.

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APPENDICES

APPENDIX 1

Means, Standard deviations and Correlations between variables related to motives

VARIABLES	MEANS	S.D	1	2	3	4	5	6	7	8	9
DEPENDENT VARIABLES											
Market-Seeking	.45	.501	1								
Resource-Seeking	.52	.503	-.305**	1							
Efficiency-Seeking	.59	.496	-.160	.169	1						
INDEPENDENT VARIABLES											
PSIZE	1.75	1.104	-.157	.137	-.014	1					
INTEX	3.00	1.405	-.211	.096	-.078	.048	1				
MSIZE	3.21	.859	.337**	-.354**	-.0139	-.194	-.134	1			
CULDIS	2.37	1.468	-.123	-.027	-.026	-.028	-.197	.188	1		
CRISK	2.12	1.262	-.011	.038	-.122	-.077	.033	.025	.000	1	
CONTRISK	2.12	1.262	.041	.007	-.157	.008	.023	.013	-.024	-.103	1

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

APPENDIX 2

Means, Standard deviations and Correlations between variables related to establishment mode

VARIABLES	MEAN	S.D	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
ESTABLISHMENT MODE	.64	.483	1														
PSIZE	1.75	1.104	-.390*	1													
INTEX	3.00	1.405	-.199	.048	1												
Msize	3.21	.859	.090	-.194	-.134	1											
CULTDIS	2.37	1.468	.249*	-.028	-.197	.118	1										
CONTRISK	2.12	1.262	.094	.008	.023	.013	-.024	1									
CRISK	2.57	1.222	.204	-.077	.033	.025	.000	-.103	1								
PROASSETS	.41	.496	.235*	-.0121	-.213	.361**	-.103	.092	-.042	1							
PRELATEDNESS	.73	.445	.239*	-.170	-.216	.186	.196	.082	-.064	-.106	1						
TCEXPERIENCE	3.01	1.400	-.193	.075	.976**	-.126	.187	-.032	-.012	-.203	-.189	1					
COMPETITION	2.91	1.265	-.056	.070	-.046	.031	-.039	.117	-.037	-.024	-.045	-.030	1				
INCENTIVES	.64	.464	.405**	-.219	-.104	.200	.091	-.029	-.130	.265*	-.074	-.118	-.095	1			
TIME OF ENTRY	.56	.500	-.049	-.123	-.077	-.251*	-.105	-.184	.128	-.020	-.049	-.088	.148	.051	1		
UK/OTHERS OWNERSHIP	.25	.438	-.010	.086	.154	-.146	.082	.213	-.077	-.302**	.074	.105	.141	-.078	-.101	1	
MODE	.40	.493	.215	-.018	.078	.013	-.153	.291*	.019	.254*	-.185	.070	-.026	.189	.175	.163	1

*. Correlation is significant at the 0.05 level (2-tailed). **. Correlation is significant at the 0.01 level (2-tailed). Establishment mode: greenfield = 1 and acquisition = 0

APPENDIX 3

Means, Standard deviations and Correlations between variables related to ownership mode

VARIABLES	MEAN	S.D	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
OWNERSHIP MODE	.40	.493	1														
PSIZE	1.75	1.104	-.018	1													
INTEX	3.00	1.405	.078	.048	1												
MSIZE	3.21	.859	-.013	-.194	-.134	1											
CULTDIS	2.37	1.468	-.153	-.028	-.197	.118	1										
CONTRISK	2.12	1.262	.291*	.008	.023	.013	-.024	1									
CRISK	2.55	1.264	.019	-.077	.033	.025	.000	-.103	1								
PROASSETS	.41	.496	.254*	-.121	-.213	.361**	-.103	.092	-.042	1							
PRELATEDNESS	.73	.445	-.185	-.170	-.216	.186	.196	.082	.064	-.106	1						
TC EXPERIENCE	3.01	1.400	.070	.075	.976**	-.126	-.187	-.932	.012	-.203	-.189	1					
COMPETITION	2.91	1.265	-.026	.070	-.046	.031	-.039	.117	-.037	-.024	-.045	-.030	1				
INCENTIVES	.64	.464	.189	-.219	-.104	.200	.091	-.029	.130	.265*	-.074	-.118	-.095	1			
TIME OF ENTRY	.56	.500	.175	-.123	-.077	-.251*	-.105	.128	.184	-.020	-.049	-.088	.148	.051	1		
UK/OTHERS																1	
COUNTRIES	.25	.438	-.163	.086	.154	-.146	.082	.213	-.077	-.302**	.074	.105	.141	-.078	-.101	1	
ESTABLISHMENT																	1
MODE	.64	.483	.215	-.390*	-.199	.090	.249*	.094	.204	.235*	.239*	-.193	-.056	.405**	-.049	-.010	1

*. Correlation is significant at the 0.05 level (2-tailed). **. Correlation is significant at the 0.01 level (2-tailed). Ownership choice: WOS= 1 and JV = 0

APPENDIX 4

Means, Standard deviations and Correlations between variables related to performance

VARIABLES	MEAN	S.D	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17
PERFORMANCE	3.32	.989	1																
PROFITABILITY	3.29	1.112	.761**	1															
PSIZE	1.75	1.104	-.332**	-.144	1														
INTEX	3.00	1.405	.078	.035	.048	1													
MSIZE	3.21	.859	.237*	.245*	-.194	-.134	1												
CULTDIS	2.37	1.468	-.055	-.027	-.028	-.197	.118	1											
CONTRISK	2.12	1.262	-.020	-.102	.008	.023	.013	-.024	1										
CRISK	2.55	1.222	.056	-.059	-.077	.033	.025	.000	-.103	1									
PROASSETS	.41	.496	-.025	-.051	-.121	-.213	.361**	-.103	.092	-.042	1								
PRELATEDNESS	.73	.445	.289*	.133	-.170	-.216	.186	.196	.082	.064	-.106	1							
TCEXPERIENCE	3.01	1.400	-.032	.058	.075	.976**	-.126	-.187	-.032	.012	-.203	-.189	1						
COMPETITION	2.91	1.265	.013	-.067	.070	-.046	.031	-.039	.117	-.037	-.024	-.045	-.030	1					
INCENTIVES AGE OF THE UNIT	.64	.464	.158	.307**	-.219	-.104	.200	.091	-.029	.130	.265*	-.074	-.118	-.095	1				
UK/OTHERS ESTABLISH MODE	.56	.500	.152	.065	-.123	-.077	-.251*	-.105	.128	-.184	-.020	-.049	-.088	.148	.051	1			
OWNERSHIP MODE	.25	.438	-.096	-.210	.086	.154	-.146	.082	.213	-.077	-.302**	.074	.105	.141	-.078	-.101	1		
MODE	.64	.483	-.216	.149	-.390**	-.199	.090	.249*	.094	.204	.235*	.239*	-.193	-.056	.405**	-.049	-.010	1	
MODE	.40	.493	-.211	-.143	-.018	.078	-.013	-.153	.291*	.019	.254*	-.185	.070	-.026	.189	.175	-.163	.215	1

**Correlation is significant at the .01(two-tailed); *Correlation is significant at the .05 level (two-tailed)

APPENDIX 5: VIF Test (Collinearity Diagnostics in the Dataset).

Model	Unstandardized Coefficients		Standardized Coefficients	Collinearity Statistics	
	B	Std. Error	Beta	Tolerance	VIF
(Constant)	.591	.335			
Psize	-.267	.080	-.334	.844	1.185
Inter experience	-.184	.164	-.534	.038	26.628
Msize	-.124	.062	-.220	.701	1.426
Cultural distance	.067	.033	.205	.874	1.145
Country risk	.085	.041	.205	.896	1.116
Contractual risk	.027	.041	.070	.730	1.370
Proprietary Assets	.180	.110	.185	.666	1.502
product related	.211	.115	.194	.763	1.311
Target country exp	.149	.161	.430	.039	25.605
Incentives	.285	.107	.274	.808	1.238
Competition	.013	.037	.035	.890	1.124
Age:1990s/2000s	-.203	.102	-.210	.771	1.297
UK/Others	.087	.119	.079	.740	1.352
Ownership choice	.208	.105	.213	.749	1.335

Dependent variable: ESTABLISHMENT MODE

Model	Unstandardized Coefficients		Standardized Coefficients	Collinearity Statistics	
	B	Std. Error	Beta	Tolerance	VIF
(Constant)	-.088	.410			
Psize	.092	.104	.113	.722	1.384
Inter experience	.005	.198	.013	.037	27.185
Msize	.008	.077	.013	.658	1.521
Cultural distance	-.043	.040	-.127	.831	1.203
Country risk	-.018	.050	-.042	.837	1.195
Contractual risk	.112	.047	.287	.793	1.262
Proprietary Assets	.094	.134	.095	.643	1.555
product related	-.195	.139	-.176	.746	1.341
Target country exp	.041	.194	.117	.039	25.947
Incentives	.074	.135	.069	.726	1.377
Competition	-.021	.045	-.053	.891	1.122
Age:1990s/2000s	.155	.124	.157	.742	1.347
UK/Others	-.186	.140	-.165	.755	1.325
Establishment mode	.297	.149	.291	.547	1.829

Dependent variable: OWNERSHIP MODE

Model	Unstandardized Coefficients		Standardized Coefficients	Collinearity Statistics	
	B	Std. Error	Beta	Tolerance	VIF
(Constant)	2.568	.748			
Psize	-.253	.191	-.155	.713	1.403
Inter experience	-.636	.362	-.903	.037	27.185
Msize	.341	.140	.296	.658	1.521
Cultural distance	-.156	.073	-.232	.815	1.226
Country risk	-.165	.092	-.194	.835	1.198
Contractual risk	.057	.091	.073	.725	1.379
Proprietary Assets	-.419	.246	-.210	.638	1.568
product related	.277	.258	.125	.722	1.385
Target country exp	.683	.355	.967	.039	25.966
Incentives	.263	.247	.124	.723	1.384
Competition	-.025	.082	-.032	.888	1.126
Age:1990s/2000s	.570	.229	.288	.723	1.383
UK/Others	-.213	.260	-.094	.733	1.364
Establishment mode	.570	.282	.279	.513	1.950
Ownership choice	-.670	.236	-.334	.703	1.423

Dependent variable: TOTAL PERFORMANCE

Model	Unstandardized Coefficients		Standardized Coefficients	Collinearity Statistics	
	B	Std. Error	Beta	Tolerance	VIF
(Constant)	1.730	.878			
Psize	.148	.224	.081	.713	1.403
Inter experience	-.059	.424	-.074	.037	27.185
Msize	.427	.164	.330	.658	1.521
Cultural distance	-.130	.086	-.172	.815	1.226
Country risk	-.221	.107	-.232	.835	1.198
Contractual risk	-.002	.106	-.002	.725	1.379
Proprietary Assets	-.674	.289	-.300	.638	1.568
product related	.172	.302	.069	.722	1.385
Target country exp	.194	.416	.244	.039	25.966
Incentives	.765	.290	.319	.723	1.384
Competition	-.048	.096	-.055	.888	1.126
Age:1990s/2000s	.496	.269	.223	.723	1.383
UK/Others	-.686	.305	-.270	.733	1.364
Establishment mode	.607	.330	.264	.513	1.950
Ownership choice	-.637	.277	-.282	.703	1.423

Dependent variable: PROFITABILITY

APPENDIX 6: Some of the biggest manufacturing companies in Ghana

COMPANIES	PRODUCT	HOME COUNTRY
Nestle Ghana limited	Food Product	Switzerland
Unilever Ghana limited	Food, home care and personal care products	UK
Alcoa-Ghana Aluminum company td	Aluminum	USA
Guinness Ghana	Brewery	Ireland
Cadbury	Chocolate	UK
Ghacem	Cement	Norway
PZ Cussons	Hair care, medicament, detergent , baby care etc	France
Nexan Cable metal	Cable metal	Germany
Johnson Wax	Household cleaning products & personal care	U.K
Coco cola	Drinks	USA
Barry Callebaut (Gh) Limited	Food and chocolate drinks	Switzerland
Yara Ghana	Mineral fertilizers and industrial products.	Norway
Promasidor (Gh) Limited	Food products	South Africa
West coast beverage company limited	Manufacturing and bottling of alcoholic beverages	South Africa/Switzerland
GAFCO	Wheat flour, bran, semolina, etc	Germany
Blue Sky Products (Gh) limited	processing of fresh exotic fruits	UK
Kgm industries limited	Plastic products	Hong Kong
Indus-chimie mfg. limited	Oil & emulsion paint	France
Precision chemicals limited	Paints & basic chemical materials	Canada/Hong Kong
Cargill (Gh) Limited	Cocoa processing	USA
Trusty foods (Gh) limited	Tomato paste and spaghetti	Italy
Permafix industries (Gh) ltd	Tile adhesive (Tile Cement)	Spain
Fan Milk companies	Milk-based products	Group of Scandinavian investors
AkzoNobel (Sikkens Paints)	Paints	The Netherlands

APPENDIX 7: Number of observations by industry

Manufacturing	Number of observations
Food products and beverages	26
Textiles, leather and footwear	1
Wood, pulp and paper product	3
Rubber and plastic products	10
Concrete and cement products	4
Machinery, equipment and steel	9
Chemical products	14
Electrical and electronic products	8
Total	75

APPENDIX 8

**FOREIGN MANUFACTURING INVESTMENTS BY FOREIGN FIRMS IN
GHANA**

PART 1: BACKGROUND INFORMATION

- 1) Country of origin of the investor(s) _____
- 2) Name of the company _____ 3) Year of estment _____
- 4) How did your company initially enter into the Ghanaian market? a) Acquisition ___ b) setup investment/greenfield ___
- 5) What was your ownership share of the unit in Ghana at the beginning? a) ___ 10-49% b) ___ 50% c) ___ 51-65% d) ___ 66-94% e) ___ 95-100%
- 6) Total number of employees in the parent firm headquarters at the time of investment and in 2009/2010?
At the beginning: a) 10-499 b) 500-999 c) 1000-3999 d) 4000-6999 e) 70000 and above
In 2009/2010: a) 10-499 b) 500-999 c) 1000-3999 d) 4000-6999 e) 70000 and above
- 7) What was the parent firm experience in international manufacturing operations at the time of the establishment?
a) ___ No unit b) ___ one unit c) ___ 2-4 units d) ___ 5-9 units e) ___ 10-19 units
f) ___ 20 or more units
- 8) What is the unit's line of business? a) ___ industrial products b) ___ consumer products
c) ___ both d) in more detail the line of business _____
- 9) How similar was your company's business/product similarity with the parent firm business/products

a) ____ totally different b) ____ partially similar c) ____ totally similar

10) Your company's operations in Ghana before the establishment of the unit: 1) ____ no prior activity, 2) ____ sales office, 3) ____ licensing agreement, 4) ____ exporting, 5) ____ a wholly-owned manufacturing unit, 6) ____ a manufacturing joint venture, 7) ____ several manufacturing units.

11) Your company's manufacturing investments in other African countries before investing in Ghana. a) ____ none b) ____ one c) ____ 2-4 d) ____ 5 or more

If you had manufacturing investments in other African countries before investing in Ghana, where those units:

12) a) all acquisitions ____ b) all greenfields ____ c) both types ____

13) a) all joint ventures ____ b) all wholly owned subsidiaries ____ c) both types ____

PART 2: KEY ISSUES RELATED TO THE GHANAIAN MARKET AND THE INVESTMENT

14) Why did you choose to invest in this country? Please evaluate each of the motives presented below from 1 to 5.

	<i>Not at all important</i>	<i>Somewhat important</i>	<i>Very important</i>		
a) Availability of low-cost input factors (e.g. raw material)	1	2	3	4	5
b) Availability of cheap labour,	1	2	3	4	5
c) To serve the country local market	1	2	3	4	5
d) Access to a regional (Ecowas) market	1	2	3	4	5
e) To gain presence in new market	1	2	3	4	5
f) Purchasing power of customers	1	2	3	4	5
g) Prospects for market growth	1	2	3	4	5
h) Economies of scale	1	2	3	4	5
i) Better resource and capacity usage	1	2	3	4	5
j) Learning purposes	1	2	3	4	5
k) Other motive, which _____	1	2	3	4	5
l) Main motive _____	1	2	3	4	5

15) How does your company perceive the Ghanaian market at the time of investment and in 2010?
(please circle the number)

a) at the time of investment: Culture:	Very different	1	2	3	4	5	Very similar
b) in 2010: Culture:	Very different	1	2	3	4	5	Very similar
c) at the time of investment: Risk:	Very high risk	1	2	3	4	5	Very low risk

d) in 2010: Risk:	Very high risk	1	2	3	4	5	Very low risk
e) at the time of investment: Competition:	Very high	1	2	3	4	5	Very low
f) in 2010: Competition:	Very high	1	2	3	4	5	Very low
g) at the time of investment: market size and growth potential	Very small	1	2	3	4	5	Very large
i) at the time of investment: cost of marking and enforcing contract	Very high	1	2	3	4	5	Very low
j) in 2010 cost of marking and enforcing contract	Very high	1	2	3	4	5	Very low

The following questions should be answered with respect to the investment in the country based on conditions **at the time of market entry and now.**

- 16) At the time of your investment, were there any legal restrictions on foreign ownership in Ghana in main industry of the firm a) No ____ b) Yes ____ What? _____
- 17) At the time of your investment, were there any incentives (e.g. tax incentives) for setup/greenfield investment? a) No ____ b) Yes ____ What? _____
- 18) If your investment was made in the form of a setup/greenfield investment, what was/were the main motive(s) for the choice? a) no good potential acquisition target firm ____ b) acquisition negotiations complicated ____ c) acquisition would have been more expensive form ____
d) other reason, what/which _____
- 19) What/which motive(s) affected your choice of 95-100% ownership in the unit? a) company policy is to establish/make only wholly-owned foreign investments ____ b) no good joint venture partners were available ____ c) other reasons, what/which _____

If your company entered into Ghanaian market with joint venture or through acquisition, please answer the questions 20-22.

- 20) Please state your opinion on each of the following criteria which your firm considered when selecting the Ghanaian partner/acquisition target. Please circle according to the importance of each criterion on the scale below where 1= 'of no importance', 5= 'very significant')

	Of no importance			very significant	
a) Technology strength of partner	1	2	3	4	5
b) Financial resources of partner	1	2	3	4	5
c) Partner's local market knowledge	1	2	3	4	5

d) Established marketing/distributing system	1	2	3	4	5
e) International experience of partner	1	2	3	4	5
f) Relatedness of partner's business	1	2	3	4	5
g) Managerial strength of partner	1	2	3	4	5
h) Reputation of partner	1	2	3	4	5

- 21) What was the type of ownership of the IJV partner or acquired unit? a) ___ family-owned
b) ___ state-owned c) ___ local plc d) ___ local unit of an MNC e) ___
other f) what/which _____
- 22) Relationship of your company with the IJV partner or acquisition target prior to the establishment of the unit: Target firm was a) ___ no prior relationship b) ___ customer c) ___
licensing partner d) ___ representative of your products e) ___ competitor f) ___
other, what? _____
- 23) What was/were the main motive(s) for the choice of acquisition form of investment? a)
setup investment would had taken too long time ___ b) greenfield investment would had
been more expensive than an acquisition ___ c) gaining a market share ___ d) gaining a
strong brand ___ e) to eliminate competitors ___ f) other reason,
what/which _____

PART 3: MANAGEMENT, CHANGES AND PERFORMANCE EVALUATION OF THE UNIT

- 24) What was the status of the unit's ownership arrangement in 2009/2010 (compared to the time
of establishment)?
a₁) ___ No change
b₁) ___ Changes in ownership share. The new share of the unit: ___ %
b₂) Year(s) of Change(s) _____
c₁) ___ Sold to a third party. c₂) Year of sale: _____
d₁) ___ Closed down. d₂) Year of closing: _____
e₁) ___ Other changes: _____ e₂) _____
f) The reason for the change _____

What was the unit's market position in the country?

- 25) At the time it was established a) ___ market leader b) ___ within 2-5 biggest firms c) ___
smaller
- 26) In 2009/2010 a) ___ market leader b) ___ within 2-5 biggest firms c) ___ smaller

27) Unit's turnover in 2009/2010 in Million USD: a) ___ <10 b) ___ 10-49 c) ___ 50-99
d) ___ 100-499 e) ___ ≥500

28) Were the original decisions on establishment and ownership modes the right ones? If you would make the investment at this moment would the company use the same choice?

a) Establishment mode: yes no if no, why? _____
b) Ownership mode: yes no if no, why? _____

29) When there are disagreements/conflicts in the operations/strategic decision of the unit between your firms and local firm(s), your company's actions applied: (with 1: never used; 2: relatively seldom used; 3: quite often used; 4: often used; 5: always used)

	Never					Always				
a) Use written agreement to obtain compliance	1	2	3	4	5	1	2	3	4	5
b) Remind partner of contractual obligations	1	2	3	4	5	1	2	3	4	5
c) Refer to contract when disagreement occur	1	2	3	4	5	1	2	3	4	5
d) Interpret written agreement to convince	1	2	3	4	5	1	2	3	4	5
e) Get all concern and issues into the open	1	2	3	4	5	1	2	3	4	5
f) Tell own ideas and ask partner to tell theirs	1	2	3	4	5	1	2	3	4	5
g) Show logic and benefits of own position	1	2	3	4	5	1	2	3	4	5
h) Enter direct discussion of problem	1	2	3	4	5	1	2	3	4	5
i) Use "give and take" to achieve compromise	1	2	3	4	5	1	2	3	4	5
k) Try to find an intermediate position	1	2	3	4	5	1	2	3	4	5
m) Propose a middle ground	1	2	3	4	5	1	2	3	4	5
n) Find a fair combination of gains and losses	1	2	3	4	5	1	2	3	4	5
o) Use power to win a competitive situation	1	2	3	4	5	1	2	3	4	5
q) Use expertise to make decision	1	2	3	4	5	1	2	3	4	5
s) Use management authority to select proposal	1	2	3	4	5	1	2	3	4	5

30) Please mark the *measures* that your company uses to evaluate the performance of the unit using the scale from 1 to 5 to the list below with 1: totally unimportant measure or no use it at all and 5: extremely important measure or always use it:

Measures	At formation stage of unit					At present stage of unit				
	Totally unimportant			Extremely important		Totally unimportant			Extremely important	
a) Cash flow	1	2	3	4	5	1	2	3	4	5
b) Growth in sales	1	2	3	4	5	1	2	3	4	5
c) Level of sales	1	2	3	4	5	1	2	3	4	5
d) Return on Investment	1	2	3	4	5	1	2	3	4	5
e) Market share	1	2	3	4	5	1	2	3	4	5
f) Degree of conflict with	1	2	3	4	5	1	2	3	4	5

local partners

g) Market position	1	2	3	4	5	1	2	3	4	5
h) Quality & Quantity of product	1	2	3	4	5	1	2	3	4	5
i) Innovation & learning	1	2	3	4	5	1	2	3	4	5
j) Distribution	1	2	3	4	5	1	2	3	4	5
k) Reputation of unit	1	2	3	4	5	1	2	3	4	5
l) Customer satisfaction	1	2	3	4	5	1	2	3	4	5
m) Employee satisfaction	1	2	3	4	5	1	2	3	4	5
n) Labor productivity	1	2	3	4	5	1	2	3	4	5
o) Other (please specify)	1	2	3	4	5	1	2	3	4	5

31) At present, how satisfied are you with the performance of the unit in the country? Please rate each measure on a scale from 1 to 5

	Very unsatisfied			Very satisfied	
a) Overall performance	1	2	3	4	5
b) Level of sales:	1	2	3	4	5
c) Sales growth:	1	2	3	4	5
d) Profitability	1	2	3	4	5
e) Market share	1	2	3	4	5
f) Distribution	1	2	3	4	5

32) Your name _____ 33) Your position in the company _____

34) Your telephone contact number _____ 35) Your email _____

36) Did you participate in the decision-making during the establishment of the unit? ____ Yes
____ No

37) Your relationship with the unit at the moment _____

38) Would like to have a summary of the study results? ____ Yes ____ No