Domestic Champions: Continental Multinational Enterprises' Potential to Invest in Sub-Saharan Africa

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Abstract

Foreign direct investment (FDI) in Sub-Saharan Africa remains an elusive subject of study for economists, given the continent's boom and bust patterns. Particularly, FDI exchanges *within* the region remain largely understudied due to their paucity and a lack of available online data. There is evidence that foreign multinational enterprises (MNEs) engaging in FDI on the continent do so differently, based on their regional origin. However, there is a clear gap in the literature regarding Sub-Saharan African investors, particularly those investing in other countries. Gravity models of cross-national differences have been previously used to explain differences between countries, based on dimensions such as culture and politics, but none has focused exclusively on Sub-Saharan Africa. This leads to the question: *how can cross-national differences explain the contrasts in investment patterns between Sub-Saharan African MNEs and foreign MNEs?* I argue based on theory and empirical evidence that relatively lower cross-national differences between Sub-Saharan countries could contribute to facilitating FDI flows within the continent. The foreign expansion of the South Africa-based Mobile Telecommunications Network (MTN) is taken as a case study to observe the institutional differences between 14 Sub-Saharan African countries. I find that while some disparities are observed, similarity between countries on important dimensions remain present. This has important implications for economic development in these countries.

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Acronyms

FDI	Foreign Direct Investment
GDP	Gross Domestic Product
US	United States
UK	United Kingdom
UNCTAD	United Nations Conference on Trade and Development
UNECA	United Nations Economic Commission for Africa
WB	World Bank
WTO	World Trade Organization
SSA	Sub-Saharan Africa
AU	African Union
CND	Cross National Differences
GATT	General Agreement on Trade and Tariffs
MTN	Mobile Telephone Networks
MNE	Multinational Enterprise

Introduction

FDI is an important source of growth for certain countries in Sub-Saharan Africa (SSA) (Adams, 2009; O. Akisi et al., 2020; Gui-Diby, 2014; Iamsiraroj, 2016) as it contributes on average 5% of African countries' GDP (EY, 2018). However, the majority of inward FDI in these countries originates from a few major economies, mainly the US, UK, Netherlands, China, and France (UNCTAD, 2021). This poses a problem on multiple levels, notably that foreign investments from investors of these countries are largely resource-seeking, that certain types of investments do not result in significant spillovers, that unequal bargaining power between negotiating states results in worse terms for host countries and that FDI inflows can be highly volatile in times of crises (Chaudhary et al., 2021). It would be wise for governments and businesses of these countries to look towards diversifying their sources of FDI income. This would enable them to reduce their cost of bargaining for deal-making with developed country foreign investors, helping them establish better terms for themselves and potentially integrate national development objectives in investment treaties. In addition, investor diversification would contribute to hedging risk in times of crises. From looking at the World Investment Report 2021, two domestic countries are in the top 10 outward investors into Sub-Saharan Africa: Mauritius and South Africa. It would be interesting to investigate whether the specific characteristics of MNEs from this region affect their capacity to invest within the area.

While Nigeria has the highest current GDP in SSA, this position is largely due to the country's reliance on its oil revenues, which constitute around 7% of its GDP (World Bank, 2021). For research on FDI, this does not contribute much to the discussion on the private sector's ability to invest abroad. Mauritius, on the other side, does not gain much revenue from natural resources

(World Bank, 2021). However, the country does stand out in another aspect: it has poised itself as an attractive hub for investment thanks largely to its strategic position between four continents, serving as a transition economy for exports and capital flows (Sobhee, 2009). This economic strategy is not available as such to other SSA states, making Mauritius more of an exception rather than the rule. Given these arguments, South Africa was selected as the country from which to observe investors, also considering that it possesses several large MNEs (Mckinsey, 2022).

A short introduction of the international expansion of case company the Mobile Telephone Networks (MTN) Group is provided to help situate this analysis within the context of this research. The MTN Group (from here on MTN) is a South African telecommunications multinational which was created in 1994, just as South Africa was organizing its first democratic elections in the post-apartheid regime and entering a phase of privatization of its mobile networks. Mobile telephones were beginning to be mass commercialized in the country and MTN's market share grew rapidly. Since their foundation MTN has equally expanded into other sub-sectors of the telecommunications industry, acquiring their own internet provider, and providing a range of services from mobile advertisement, cloud data hosting services to integrated technological management of client's transport logistics (MTN Group Limited, 2008).

Mobile Telephone Networks (MTN) as a case study was not selected randomly and is partly due to issues with data availability regarding SSA multinationals. The advantage of using a large multinational such as MTN is its presence in many other countries on the continent, which allows us to observe and analyze the interaction of South African investors with those of different countries, but which are expectedly not as distant in terms of cross-national distance measurement. MTN was also selected based on the firm's business activities. The telecommunications sector is one of the fastest growing in Africa, for reasons including the fact that the industry is currently

overall underdeveloped on the continent, especially in terms of coverage and infrastructure (Lee et al., 2012). Telecommunications are an essential element to SSA economic and social development due to the particularly critical nature of the industry, which enables and facilitates communication for citizens but also for businesses. This makes it a promising sector for research as it has the potential to contribute to economic growth in host countries. Considering this, and more importantly based on the argument of the cross-national differences, I formulate the hypothesis that a firm such as MTN is better able to navigate Sub-Saharan business environments than its non-continental counterparts.

Nevertheless, the limits of selecting MTN must be acknowledged with regards to overall representativity: the object of this research being intra-African investment, an ideal project would have included SSA multinationals of other origins to increase the validity of the findings. South Africa is one of the continent's largest economies (World Bank, 2021) and this creates a certain bias in our potential interpretations of SSA investors' capacity to expand on the continent. However, this is a compromise which must be made as multinationals of other Sub-Saharan states are not numerous, unfortunately, and do not offer the same amount of data on internationalization.

Firm-level data is hard to obtain for businesses operating in SSA. The first issue is that many businesses in the region are small, and a significant proportion are informal (unregistered) (Mckinsey, 2022). This means that any information about the business is usually handwritten or not written at all. The second issue lies in the lack of collection and centralization of this data, meaning that it may only be accessible on demand and often not online. For this reason, using a mixed-method approach which relies on both qualitative and quantitative data is the best option for analyzing FDI in SSA, to compensate for patchy data in both methodological areas. While traditional FDI theory such as Hennart's (1982) internalization theory or Dunning's (1973)

ownership, location and internal (OLI) advantages theory is quantitative, using econometric models to assess risk and causation, these do not capture well the factors behind the numbers as the data they rely on is not disaggregated.

There is a strand of theory of foreign direct investment which looks at the concepts of institutional, economic, regulatory, and cultural differences, grouping them together under the term cross-national differences. This theory considers the effect of these differences between host and home countries on FDI flows, positing that the degree of the differences in these areas will affect the type of investment as well as its impacts (Berry et al., 2010). From here on, I shall refer to this theory as Cross-National Differences (CND) theory. This will be explored and considered in this thesis, which proceeds with the following structure. Chapter 1 will summarize the main literature on this area of research, with Chapter 2 diving into the methodological approach looking at four categories of literature. Following which Chapter 3 will describe CND theory, identifying its advantages but also limitations and setting the context for its use in analyzing intra-African FDI. Next, Chapter 4 looks at the case of MTN and its foreign expansion on the continent. Finally, Chapter 5 and 6 are reserved for the analysis using gravity model distance values. This thesis will finish with a conclusion summarizing the main points and arguments, as well as analyzing implications and formulating suggestions for future research.

Chapter 1: Literature Review

FDI is not an end in itself; it has largely been recognized as a significant tool for development, but for it to be effective it must be accompanied by a transfer of skills and technology (Chaudhary et al., 2021). FDI policies must therefore seek to manage incentives for foreign investors to maximize spillovers. A significant argument in favor of intra-African FDI is that SSA investors tend to be less risk-averse and are not afraid to invest in environments which would scare away developed investors (Krüger & Strauss, 2015). However, to attract FDI and make FDI work for development, host governments will still need to address a series of market failures related to the market for skills and technology and need to overcome information barriers. Benefits to local industry can be further maximized, according to the literature, by reinforcing and encouraging as many linkages as possible between foreign and local firms through the investment process (Te Velde, 2001).

Additionally, other positive spillover effects of increased investment between neighboring African countries should be sought, such as the associated integration between involved economies. UNCTAD (2021) finds in its latest report that there is an expectation based on current trends that regional FDI will grow in importance over the following years. This comes in parallel to the regionalization of supply chains, due to regionalization being listed by the report as one of the main likely developments of international production by 2030 (UNCTAD, 2021). Given that major multilateral players on the continent including the African Union (AU), the African Development Bank (AfDB) and the United Nations Economic Commission for Africa (UNECA) give high priority to regionalization, there is tremendous value to be gained from promoting intra-African investment (Asiedu, 2020). For example, the East Africa region has seen some successful

regional integration demonstrating that innovation and competitiveness can be improved externally (Paez et al., 2020). This evidence leads me to formulate the hypothesis that, in the case of this thesis, South African MNEs, and potentially other MNEs from the continent may be better able to expand to other Sub-Saharan countries as opposed to foreign MNEs.

Furthermore, FDi Markets data by Financial Times (2021) indicates that the presence of domestic firms in the SSA region is rising, but also that the presence of foreign firms is decreasing. While emerging economies are gaining ground, representing 34% of total projects, the investment landscape is still dominated by developed country investors who are responsible for the other 66% (Sita & Hlophe, 2019). Given this trend, there is anticipated space for continental firms to seize markets and opportunities, and especially a need to raise capital themselves. Equally, the data shows that while results differ per country, some countries receive most of their FDI from other SSA countries, such as Uganda or Rwanda (Rolfe et al., 2015).

Dunning (1993) separates FDI into four types: resource seeking, market seeking, strategic asset seeking and efficiency seeking. Market seeking FDI is claimed by Dunning to be the most beneficial, leading to the creation of jobs, diffusion of know-how and skill development. This type of FDI seems to be attracted to sectors which are labor-intensive, such as services and processing (Kedir, 2011). Employing unique firm level data for 19 SSA countries, Gold et al. (2017) show that firms receiving FDI outperform domestic ones. They also find with statistical significance that intra-African FDI results in higher employment growth and technology transfer as opposed to Northern FDI. Due to the distinct characteristics of the projects that emerging country investors look to as opposed to those by mature investors, emerging country investments are found to generate more jobs and attract more capital compared to developed country ones (Sita & Hlophe, 2019). These findings hint at the existence of special dynamics of intra-continental investment.

Coniglio et al. (2016) observed that in host countries which have higher institutional quality, foreign firms tend to recruit a lower number of foreign workers. This seems to imply that foreign labor is employed by investing firms mainly to counter the risk of corruption and institutional dysfunctions in host countries. However, this finding can be questioned in terms of its general applicability given the ambiguous relationship between institutional quality and economic development, an indicator of the price of labor which also affects whom firms employ. Furthermore, academics point to South-South investors having a comparative advantage over North-South investors based on institutional, cultural, and technological proximity **(**Cuervo-Cazurra & Genc, 2008). They argue that this proximity results in an increased facility in maneuvering through the local business environment and networking, as well as lower risk aversion (Perez-Villar & Seric, 2015). This should result in these firms being better able to create linkages with the host economy, however the link is not so direct: these distances between countries change over time, as economies improve or degrade, affecting the linkage effect.

When looking at the types of investments made in SSA according to Dunning's (1993) categories, research confirmed that a significant share of FDI inflows to the region are currently concentrated on natural resources (Asiedu, 2020). Mining and agriculture represent the most considerable proportion of foreign-owned firms. In these two sectors, more than half of the companies are owned by foreign investors (Blanas et al., 2017). This is significant as it indicates a foreign preference for natural resources, an industry with very little to no spillovers. With FDI-led growth in SSA originating from the services sector, countries need to develop a clear strategy for attracting investment to the right sectors, otherwise domestic resources and production advantages are not efficiently utilized. (Danja, 2021).

The concept of cross-national distances (CND) as formulated by Berry et al. (2010) encompasses nine different dimensions of distance. These are, in no level of importance political, economic, financial, administrative, cultural, demographic, knowledge, geographic and connectedness distances. Berry et al.'s (2010) experiment stands out for a couple of reasons. First, their paper uses a package of nine distance dimensions, which captures more information about the range of factors which investing firms (un)consciously account for when deciding to enter abroad. Each of these nine dimensions consists of several indicators which are compounded together during the creation of an index to measure total, or cross-national distances between countries. Most other sources using concepts of institutional or other distances tend to use only one indicator per distance dimension. Second, they rely on the Mahalanobis method of calculating distances. The advantage of the Mahalanobis method is that it is better suited for a multidimensional measurement of distances, as is the case for cross-national distances (Berry et al., 2010).

Chapter 2: Research Methodology

In the introduction I mentioned the paucity of economic data and statistics on Sub-Saharan Africa. While this is the case for disaggregated and micro-level data (Jerven, 2022), regional and country analyses do exist, although these tend to be concentrated in sub-topics such as trade and North-South FDI flows. Research on the topic of SSA FDI, let alone intra-African FDI, thus requires the use of a diverse literature, with data, evidence, and theory from sub-strands of this area. This thesis relies on research which has been split methodologically in this section into four categories: **descriptive statistics, analytical statistics, descriptive qualitative data,** and **theoretical qualitative data**. It was decided to approach the methodology from different angles based on the rarity of SSA empirical data and the need to combine these different approaches to conduct a successful holistic analysis. In the fields of international business and political economy, which this thesis both borrows from, statistics and econometrics serve as the foundations of most research papers. While this thesis seeks to answer more of a "how" descriptive question about the distinctiveness of South African MNEs investing in the Sub-Sahara, these quantitative models remain essential to include to a degree.

The first category of **descriptive statistics** revolves a small number of extensive reports and evaluations which use their own or other's collected statistics on investment and trade in SSA, with visual representations. Notably, UNCTAD's World Investment Report 2021, Ernst and Young's Africa Attractiveness Report 2019, UNECA's 2020 report on the Drivers for boosting intra-African investment, and the Centre for Economic, and Policy Research's Post-Covid Recovery report (2020) provide a broad picture of the state of the investment landscape in the Sub-Sahara as of recently. These are used as the basis for the identification of major trends in FDI on

the continent and serve to provide empirical backing for the claims made in this thesis. While international organizations, institutes and think-tanks typically have a certain normative direction to their work, these views are not considered in this case and instead the focus is placed on the large and reliable databases that these publishers use, collected methodically and critical to the main arguments formulated in this thesis. They also help establish a sense of validity to the data by demonstrating a parallel in the trends observed in the various reports.

Given the overwhelming reliance of economics on quantitative methods it is only natural that a large part of the literature on FDI in SSA is concentrated around econometric models. The following articles are categorized under **analytical statistics**. These are particularly useful to test and confirm the effects of microeconomic factors on economies, such as economic integration (Kedir, 2011; Wang'ombe et al., 2019; Perez-Villar & Seric, 2015) institutional distance (Wang & Anwar, 2022; Ma & Ratcliff, 2020; Alyksenska & Havrylchyk, 2013; Lindner et al., 2016;), trade flows (Geda, 2009; Ang'ani, 2019; Kamuganga, 2012) as well effects of FDI on employment (Coniglio et al., 2016; Blanas et al., 2017; Asiedu, 2020). These papers' contribution to this work is to confirm the causal link between concepts of institutional, economic, cultural, and regulatory distance on one side and FDI which promotes economic and human development in the host country on the other.

While quantitative methods are particularly appropriate for papers of economics of political economy, I firmly believe that mixing methods is a valuable strategy which can produce results neither quantitative nor qualitative analyses can reach alone. For this reason, this thesis is also supported by a range of literature which I refer to as **descriptive qualitative data.** When it comes to FDI there are several factors which influence its attraction by countries, many of these non-economically related. It thus important to look also at the historical and institutional context

surrounding FDI in recipient countries in the Sub-Sahara (Saurombe, 2017; Gumede, 2015; Dada 2019; Danja, 2021; Igbinosa & Abu, 2016; Te Velde, 2001). Adding these sources in complement to the econometric works on FDI, growth and development helps to fill in some gaps in the literature. While there exist to some extent some universal elements regulating FDI flows in and out of countries such as corruption levels, business regulation, and price of labor, the works depict a different picture per country and per region. At the quantitative level, conclusions are equally difficult to reach as authors very often find different results when it comes to the statistical significance of an influence factor or whether FDI truly contributes to economic growth in case country. This is primarily due to the use of different combinations of cases and time periods.

Finally, I also incorporate a different strand of literature to support my arguments and justify my research. Namely, **theoretical qualitative data** which I use to build the theory behind my research. These sources focus especially on the reasoning behind and the role of the institutional distance indexes to observe the effect of differences in multiple dimensions between countries. As can be seen with the literature, the first arguments that were formulated in favor of this theory appeared in the 1970s and 1980s, and have been edited, reformulated, and expanded upon by several authors over time. Hofstede's (1980) dimensions were taken up by Kogut and Singh (1988) for a theoretical framework based essentially on cultural dimensions; then later this was expanded by Ghemawat (2001) who added geographic, demographic, and administrative distances to the model. However, Berry et al.'s (2010) holistic framework is arguably the most extensive and more interesting to base one's work on as it comprises the most dimensions of the existing institutional distance indexes. It is far from perfect, as it includes some undesired country-fixed effects as Van Hoorn (2020) points out, however these disadvantages are addressed and accounted for further. Excluding the institutional distance literature, findings on the prevalence of

developing country MNEs as investors in other developing states (Ibhagui, 2020) and on Sub-Saharan Africa's political and demographic distinctiveness which justify an approach excluding other continents (Collier, 2007) are added.

From a methodological standpoint, institutional theory of FDI stands out due to its ability to capture a range of factors extending beyond one or two variables. While initially focused on economic and political institutions, it has been upgraded over time by academics from the fields of history, social sciences, economics, and political science (Jenkins & Thomas, 2002; Jude & Levieuge, 2013; Henisz, 2000). The most modern and comprehensive approach to institutional distance theory which has been extensively used by the scholarly community is the model of cross-national distances developed by Berry et al. (2010). Their model is built upon dimensions created by previous academics and compiles all the indicators from each dimension into one distance score per dimension per country. In addition to using a statistical model of which the use in political economy is novel, the range of countries included in the data is global, covering most states in most continents. This model is discussed in more detail in the next section, which illustrates its strengths and weaknesses before employing it.

Chapter 3: Research Design

The Mahalanobis method considers changes in variable scores over time, something which the traditional Euclidean approach does not, and which helps to eliminate issues of using both constant and time-variable indicators. In addition, it is scale-invariant which is particularly useful for a multivariate measure which combines different types of indicators. One of the more significant benefits however is that this approach considers the variance-covariance matrix which "facilitates approaching distance as a construct made of multiple, partially overlapping dimensions" (Berry et al. 2010). Finally, the use of Mahalanobis distances provides explanatory advantages, in the sense where it allows for the display of a more disaggregated and holistic perspective on institutional differences.

There are however, as with all theories and methods, some limitations. One major criticism to this approach is that cross-national distances, while being able to measure relative distances and to some extent predict home/host countries involved in the sample based on identified characteristics, also capture country fixed effects through the process. This results in biased scores which do not account for this effect (Van Hoorn, 2020). Another considerable issue with the Mahalanobis method is that the inverse of the correlation matrix for the variables is needed to obtain results. When there is high correlation between variables this becomes difficult (Varmuza & Filzmoser, 2016). Van Hoorn (2020) proposes a solution to his identified bias, however, which could be used by future researchers using the Mahalanobis distance and would enable for more reliable results. His analysis suggests that using a "pure-distance approach", which in two steps creates a separate distance variable cleansed of all country-specific effects and then uses it to

identify residuals which are matched to the original variables in an Ordinary Least Squares regression, works effectively. This suggestion for improvement is of value to the field.

Berry et al. (2010) provide short definitions of the nine dimensions they incorporate in their theoretical model. They define the first, Economic distance, as the differences in economic development and macroeconomic characteristics. This dimension looks at income, inflation, exports, and imports. The Economic distance dimension is comprised of four component variables, or indicators: GDP per capita (2000 US$), GDP deflator (% GDP), exports of goods and services (% GDP), imports of goods and services (% GDP). These are taken from the World Development Indicators (WDI) of the World Bank (1994-2005). The second, Financial distance, looks at differences in the financial sector development, and considers private credit, stock market capitalization, and number of listed companies. The Financial distance dimension is comprised of three indicators: domestic credit to private sector (% GDP), market capitalization of listed companies (% GDP), number of listed companies (per 1 million population). These three indicators are taken from the WDI as well.

The third, Political distance, is the most comprehensive and considers differences in political stability, democracy, and trade bloc membership. The five sub-dimensions of political distance are policy making uncertainty, democratic character, size of the state, WTO membership, and use of regional trade agreements. The Political distance dimension has five indicators, taken from different sources: political stability measured by considering independent institutional actors with veto power (taken from the POLCONV dataset), a democracy score (from Freedom House), government consumption (% GDP) as a proxy for government size (taken from WDI), membership in WTO (GATT before 1993), and dyadic membership in the same trade bloc, with these last two taken from the World Trade Organization (WTO). In Fourth is Administrative distance, which is

defined as differences in colonial ties, language, religion, and legal system between countries. Following the four mentioned above, this dimension analyzes colonizer-colonized links, common language presence, common religion, and the type of legal system. The Administrative distance has four indicators: Whether dyad shares a colonial tie, the percentage of the population that speak the same language in the dyad, the percentage of the population that share the same religion in the dyad, and whether dyad shares the same legal system. The first three indicators on colonial ties, common language and common religion are from the CIA Factbook. The fourth on the legal system is taken from La Porta et al. (1998). These indicators are not time-dependent and are calculated as constants.

The fifth dimension, Cultural distance, is defined as differences in attitudes toward authority, trust, individuality, and importance of work and family. The elements present in this dimension are Hofstede's (1980) original cultural dimensions, namely power distance, uncertainty avoidance, masculinity, and individualism. Given some of the limitations of Hofstede's methodology as was mentioned before, this cultural dimension is less reliable, but its inclusion in the package of dimensions used by Berry et al. (2010) helps dilute the bias. The Cultural dimension relies on four indicators based on the data from the World Values Survey (WVS) with the original dimensions created by Hofstede (1980). The four indicators are power distance measured by WVS questions on obedience and respect for authority, uncertainty avoidance measured by WVS questions on trusting people and job security, individualism measured by WVS questions on independence and the role of government in providing for its citizens, and masculinity measured by WVS questions on the importance of family and work. Our sixth is Demographic distance, or differences in demographic characteristics. More specifically, it looks at life expectancy, birthrate, population under 14 and population over 65. The Demographic dimension incorporates four

indicators from the WDI data set. These are life expectancy at birth, total (years), birth rate, crude (per 1000 people), population ages 0–14 (% of total), and population ages 65 and above (% of total).

In seventh is the Knowledge dimension, considering differences in patents and scientific production. This is based on the number of patents and the number of scientific articles. The Knowledge dimension is comprised of two indicators, the number of patents per 1 million population and number of scientific articles per 1 million population. The first, number of patents, is calculated and made available online by the United States Patent and Trademark Office (USPTO), while the number of scientific articles is from the WDI and ISI. Number eight is Global Connectedness distance, an interesting dimension which is under-considered in in the literature but nevertheless plays an important role. Namely, it considers international tourism expenditure, international tourism receipts, and internet use. The Global Connectedness distance dimension involves three indicators: international tourism, expenditures (% GDP), international tourism, receipts (% GDP), and the number of internet users per 1000 people. These three indicators are taken from the WDI database. Finally, the last distance, Geographic distance, looks at great circle distance. The Geographic distance dimension only considers one indicator: the great circle distance between two countries according to the coordinates of the geographic center of the countries. This value is constant and is taken from the CIA factbook.

Chapter 4: Mobile Telecommunications Network

MTN Bissau, MTN's subsidiary in Guinea-Bissau, was launched in 1994 (MTN Guinea Bissau, 2021). Their success was such that in 1997 they acquired licenses in Rwanda, Swaziland and Uganda with operations beginning the next year (MTN Group Limited, 2008). In 2000, the company entered the Cameroonian market, and in 2001, the Nigerian and Liberian ones (Lonestar Cell, 2019) More major acquisitions in Sub-Saharan Africa followed in 2005, with the company purchasing licenses to operate in Zambia, Côte d'Ivoire, Republic of Congo, and Botswana. MTN South-Africa's last major foreign acquisitions took place in 2006 when they purchased Investcom LLC, providing them with access to their subsidiaries in Ghana and Sudan, amongst others. MTN has also formalized the operations of a separate company for South-Sudan when it became independent in 2011 and has bought licenses for Benin and Guinea Republic in 2012. An issue arises here, though, as the data made available by Berry et al. (2010) is only available until 2005. The countries in Sub-Saharan Africa which MTN has expanded to in 2006 are included in the data use, as it can be considered that the change in the distance scores between 2005 and 2006 is minimal. However, Benin and South-Sudan are not included due to MTN Benin's creation being six years later and South-Sudan not existing as a nation during the data's availability.

Given the above, this thus leaves thirteen case countries for analysis: Guinea-Bissau, Rwanda, Uganda, Botswana, Cameroon, Liberia, Nigeria, Zambia, Côte d'Ivoire, Dem. Republic of Congo, Swaziland, Ghana, and Sudan. The data for these countries is the dataset used by Berry et al. (2010) on the cross-national differences measures in their paper and is available online for the years 1960-2005; the authors find data for the US firms in their research available as of 1993, so this is their chronological starting point, thus considering the period 1993-2005. MTN's creation

and expansion only began in 1994, however following the same rhetoric as above, we can expect that the differences from the one year to the other are minimal, and I therefore use the dataset as it is. Given that the original has 199 countries, I copy and extract the data for the fourteen case countries only and create a separate table for these values to facilitate the analysis and display.

The data is expressed as the differences in values between two countries: since our reference point is South Africa, the country which MTN is investing from, this country is not included in this dataset. The values are thus the differences between South Africa and the other 13 countries for each distance dimension, so for example BEN-ZAF Administrative = 24.934 means that the administrative distance between Benin and South Africa is of the value 24.934. Due to some gaps in the data, some values are missing, particularly in the cases of Cultural Distance and Financial Distance, where the data is only available for South Africa's distances with three countries for the latter and only one for the former. Data for Swaziland is missing for the Demographic, Economic, Global Connectedness, and Knowledge distances. Data for Rwanda and Liberia is also missing for the Global Connectedness Distance, as well as for Benin for the Political Distance. For the missing values in the Financial Distance data, this can be attributed to the World Bank updating its financial data, on which the Berry et al. (2010) scores are based, in 2017. It was decided by these authors that they should equally update their data, but the difference in the methodology used for the two different data collection processes has resulted in data for many countries becoming unavailable for the years prior to 2012. The other gaps in data availability can be attributed mostly to natural/political events occurring in these countries which may have disturbed the data collection process and issues tied to underdevelopment, namely lack of national data collection capacity, as well as potentially a problem of politicians not realizing the value of data analysis (Jerven, 2022). These gaps in my dataset are a certain weakness as they reduce the

validity of the results from my analysis to a certain degree. However, the advantage of the data being extensively disaggregated into nine dimensions is that such holes can be diluted within the larger dataset.

The country codes used in this paper are those used by the World Bank in their World Development Indicators (1993-2005) and are internationally recognized. The country codes are the following: Benin = BEN; Botswana = BWA; Cameroon = CMR; Ivory Coast = CIV; Ghana = GHA; Guinea Bissau = GNB; Liberia = LBR; Dem. Republic of Congo = ZAR; Rwanda = RWA; Sudan = SDN; Swaziland = SWZ; Uganda = UGA; Zambia = ZMB. The nine dimensions can be loosely separated into two groups. In the first group, the Administrative, Political, Economic, and Geographic distances represent the harder, more traditional dimensions associated with influencing FDI decisions. The results for this group are evaluated in Part 1 of the analysis. In the second group, the Demographic, Cultural, Financial, Global Connectedness and Knowledge distances represent the softer, more recent dimensions which have begun to be included in research on FDI. The results for this group are evaluated in Part 2 of the analysis.

Chapter 5: Analysis Part 1

Table 1

Geographic Distance (in km)

Country	BEN	BWA	CIV	CMR	GHA	GNB	LBR	RWA	SDN	SWZ	UGA	ZAR	ZMB
Distance score (in km)	4881	779	5161	4103	4974	6196	5338	3072	4940	789	3446	3230	1676

Geographic distance is one of the less significant dimensions. Its inclusion in the framework is still important however as it plays a certain mediating role in the facilitation of cross-border investment flows (Nsiah & Wu, 2014). Theory posits that countries which neighbor each other will see more FDI flows than those which are more distant. It is difficult to contradict this as the logic of it is simple: shared borders entail that logistics routes are shorter, which also facilitates the exchange of goods and services. There is more to it, however; geographical distance mediates other distances in the framework used in this thesis as well. Proximity equally facilitates the traveling of people, ideas, and practices across borders. The reason Geographical distance plays a mediating in foreign investment models is due to econometric analyses on the topic finding mostly mixed results through regression (Deadorff, 1998). There is certainly correlation, but its direct impact cannot be established. Following the logic of this theory, we could have assumed that MTN would expand first into neighboring countries where markets tend to be more similar and due to

the ease of establishing new supply routes. In Table 1, the closest countries to South Africa which MTN has entered are Botswana (distance of 779 km), Swaziland (the distance indicator here is special as Swaziland is placed within the borders of South Africa), and Zambia (1676 km). However, these are not the first countries MTN expanded to, and in another contradictory manner, the Telecoms group's first foreign market captured was in Guinea-Bissau, which is its furthest market. To reiterate, Geographical distance is not a conclusive indicator to observe propensity to invest abroad, although it is useful to consider its effects on other variables.

Table 2

Economic Distance

Country	BEN	BWA	CIV	CMR	GHA	GNB	LBR	RWA	SDN	SWZ	UGA	ZAR	ZMB
Distance score	0.20	0.30	0.19	0.33	0.26	0.42	19.88	0.89	0.41	x	0.29	0.22	0.25

Economic distance is in the FDI literature traditionally seen as an important factor motivating the decision to invest abroad (Jenkins & Thomas, 2002). However, much of the literature focuses on multinationals from developed countries, as is the case for Berry et al.'s (2010) paper which this thesis takes its design from. For this reason, I hope that observing the phenomenon of economic distance in a purely developing country setting, and particularly in an intra-African one, can contribute to the field. In Table 2 above, Swaziland is again missing. As was the case for the previous Demographic distances above, there is one significant outlier in the data, notably Liberia with a score of 19.88 which is much higher than the rest of the values which

do not exceed 1. In addition, the highest global distance score to South Africa in this dimension is 103.27, showing the degree of difference which can be observed on a world scale. The Economic distances for most countries in this table are all very small and similar. It can be stated that there is very close economic proximity between MTN's home country and those it expanded to, which would support my hypothesis that SSA investors fare well in other countries on their continent.

Table 3

Administrative Distance

Country	BEN	BWA	CIV	CMR	GHA	GNB	LBR	RWA	SDN	SWZ	UGA	ZAR	ZMB
Distance score	24.93	34.93	32.56	32.56	70.36	53.91	44.17	92.62	31.30	15.62	99.38	87.41	36.87

As can be observed in Table 3, there is variation between the scores, with the lowest value in the table being Swaziland with an Administrative Distance of 15.62, and the highest being Uganda with an Administrative Distance of 99.38. Interestingly, it is not countries which are geographically distant which have the highest Administrative Distance, nor do the countries in more proximity have a lower distance. As a reminder, the Administrative dimension compares colonization links, common language, common religion, and legal systems. The first three can be considered as "soft" elements, which might impact more the day-to-day activities of MTN's employees on the ground, while the legal system can be seen as a "hard" element, which company executives will consider when making the decision to enter a foreign country (Jude & Levieuge,

2013). This latter is therefore seen as having more importance in this case study on intra-African FDI projects. Based on these criteria, the Administrative scores above can be interpreted as reflecting the differences in bureaucratic processes which MTN must confront when expanding abroad. Except for Uganda, Rwanda, Democratic Rep. of the Congo and Ghana, distance scores for this dimension tend to be within the smaller range. This is made particularly evident when observing that the highest Administrative distance South Africa has with another state from the world is 220. Based on these observations, it appears that MTN has entered SSA countries with a reasonably low Administrative difference.

Table 4

Political Distance

Country	BEN	BWA	CIV	CMR	GHA	GNB	LBR	RWA	SDN	SWZ	UGA	ZAR	ZMB
Distance score	x	2.80	2.28	3.61	0.81	1.68	8.30	0.86	6.23	2.16	2.29	5.28	2.10

The fourth dimension is Political distance. This dimension is considerably important for any multinational, whatever the origin country, as any large investor abroad will have to engage with the political government of the host country to secure and facilitate its entry in that economy. However, the type and nature of government in power will be decisive in determining which companies seek this market, as well as their approach to do so (Henisz, 2000). When analyzing the values in Table 4, from which Benin is missing due to data issues, three countries stand out

due to their higher-than-average distance to MTN's South Africa: Sudan, Dem. Rep. of the Congo, and Liberia. South Africa, when evaluated by the indicators mentioned above, ranks highest in the Sub-Saharan region in terms of political openness/freedom. The distances in the table are thus negative distances, implying that MTN has only entered foreign markets which were equally or less politically open. With political corruption being widespread in the region, there is evidence (Krüger & Strauss, 2015) that multinationals originating from a country with such corruption have not been deterred from entering other markets with similar or even more levels of it. Therefore, while the above results do not tell us specifically how the degree of Political distance affects investment decision-making, they may be generally interpreted as demonstrating that MTN's executives were not dissuaded by the political corruption in their foreign markets.

Chapter 6: Analysis Part 2

Table 5

Cultural distances

Country	GHA	RWA	ZMB
Distance score	31.09	79.53	32.85

Unfortunately, the lack of data on SSA countries for this dimension in Table 5 makes it difficult to reach any significant conclusions, in addition to the empirical criticisms which exist against Hofstede's (1980) methodology. Nevertheless, their use to this day by business academics testifies to its current relevance, even though it must be perceived with precaution. With the three countries available for comparison against Africa, no patterns can be determined. While Ghana and Zambia appear to have relatively small Cultural differences with South Africa, Rwanda presents a significantly high difference, and even ranks as the country with the highest Cultural distance with South Africa in the world. This can be interpreted two ways. The first is that Rwandans do indeed have one of the highest global cultural contrasts with South Africans, which would prove a challenge to my claim that such elements play a role in the decision to invest abroad by MTN's top management. The second interpretation is that these scores are based on a methodology which presents many flaws and should not be taken as is. It is difficult to know how

valid this measure is as one cannot know if this cultural matrix, developed 40 years ago, was used by MTN in their expansion framework. In addition, as there are only three other African countries relevant to our case, I will refrain from making any conclusions.

Table 6

Demographic distance

Country	BEN	BWA	CIV	CMR	GHA	GNB	LBR	RWA	SDN	SWZ	UGA	ZAR	ZMB
Distance score	6.04	2.76	3.23	3.87	2.14	3.41	5.02	7.23	5.44	x	9.46	18.16	7.55

Demographic distance is an important indicator in the FDI literature as there is evidence of a link between demography and economic growth (Anyanwu, 2012), and an even stronger link between economic growth and FDI attraction (Jenkins & Thomas, 2002). The Demographic distance indicators above are taken from a single year (2005) and therefore cannot capture the effects of change over time, which are used to calculate economic growth. Nevertheless, the population characteristics that the Demographic dimension relies upon (life expectancy, birth rate, population under 14 and population over 65) portray well the situation as changes over time are slow. In Table 6, aside from Swaziland, all other countries are included. The first observation here is that there is one outlier in the group, Dem. Rep. of Congo, with a score of 18.16, which is twice as high as the next highest score of Uganda at 9.46. Overall, the Demographic distances between

South Africa and the other SSA states MTN has entered are low. The highest global score for Demographic distance as compared to South Africa is 33.40, which demonstrates a certain level of similarity between our case countries. Demographic characteristics can be an important indicator of the size of the market which matters to a large Telecommunications firm like MTN. We can therefore argue that Demographic distance explains some of the reasoning behind MTN's willingness and ability to expand in other countries on the continent.

Table 7

Financial distance

Country	GHA
Distance score	8.19

Unfortunately, the Financial dimension lacks much data due to the problems encountered while collecting the original data used by Berry et al. (2010). We are only left with Ghana's Financial distance to South Africa in Table 7. No assumptions or conclusions can be made here, however the fact that the highest available Financial distance to South Africa globally stands at 21.32 hints at some financial proximity existing between MTN's domestic environment and that of one of its markets. Given that sources have recently begun more expansive research on the role of the financial sector of the host country in attracting FDI (Ezeoha & Cattaneo, 2012), it is unfortunate that the data was not available due to its potential importance.

Table 8

Global Connectedness Distance

Country	BEN	BWA	CIV	CMR	GHA	GNB	LBR	RWA	SDN	SWZ	UGA	ZAR	ZMB
Distance score	0.26	0.14	0.52	1.35	0.30	2.76	x	x	0.75	x	0.46	1.86	0.84

Global connectedness distance focuses on internet use and tourism in the selected countries. This dimension proxies a country's degree of openness to the world, which has a positive impact on inward FDI. Tourism and internet indicators are less common in the literature on investment, and it is true that they do not influence managerial decisions to enter a foreign market as much as Economic, Administrative, Demographic, Political or Financial considerations. Nevertheless, the Global Connectedness dimension is useful to evaluate an economy's orientation on the global stage. It is possible to interpret that a country with more tourism will benefit from the interest of foreign investors which would be attracted to the spillovers from tourism in said countries (Guillén & Suárez, 2005). In addition, internet usage is valuable in determining a population's access to technology, and phones and computers more specifically. While MTN was not a phone-producing company until 2018 and focuses on mobile networks, the two industries go together due to their economically complementary nature (Gruber, 2005). Looking at Table 8 above, the Global Connectedness distances of the case countries to South Africa are all very small. While the values of Rwanda, Liberia and Swaziland are missing, we can still observe a pattern in

this data. The insignificance of the distances is especially highlighted by the fact that the highest global distance to South Africa in this dimension is of 74.84 with this score belonging to a highly developed country.

Table 9

Knowledge distance

Country	BEN	BWA	CIV	CMR	GHA	GNB	LBR	RWA	SDN	SWZ	UGA	ZAR	ZMB
Distance score	0.02	0.001	0.02	0.01	0.02	0.01	0.02	0.03	0.02	x	0.02	0.03	0.02

In the Knowledge dimension, we consider the number of patents and scientific articles registered in the country. These indicators are distinctly relevant for investors and executives which are looking to expand into technology-intensive sectors (Furman et al., 2002). These require human resources with the highest level of education to engage in Research and Development (R&D) and innovation. While this may affect MTN's operations to a certain degree as the company is broadening its offers to cloud services and other network solutions, most of its revenues comes from direct consumer sales and relies on reaching as many as possible (MTN Group Limited, 2008). Based on this argument, I make the case that Knowledge intensity as is defined by Berry et al. (2010) methodology is not particularly important to MTN in its considerations to enter foreign markets. This statement I make is specific for MTN, based on my evaluation of MTN's business model; however, this does not mean that knowledge intensity is not significant to other businesses investing abroad, but rather that it only extends to certain sectors and therefore in our case does

not lead to universally attractive investment conditions. For the results of the Knowledge distance in Table 9, aside from Swaziland for which the data is not available we do notice a very strong similarity in knowledge intensity between countries as shown by the considerably insignificant distances. This stark similarity is highlighted when the results are compared to the highest value for South Africa for this dimension, 21.45. The small differences in the Knowledge distance may hint to an ease for MTN in developing the quality of its products and services over time in the case countries, although more information is needed to know where the firm locates its R&D operations.

Conclusion

Considering Administrative distance, it was found based on country results that, aside from a few countries, MTN had entered countries with a reasonably similar administrative environment from a corporate point of view. Results for the cultural values were inconclusive, mostly due to the lack of data in this dimension for many countries in Sub-Saharan Africa. Furthermore, cultural diversity across the continent and within countries is large, making it impossible to reach wide-scale conclusions. For the Demographic dimension, which is deemed particularly important for a company like MTN offering a simple product on a large scale, the values pointed to a certain amount of similarity between case countries. This hints to the relevance of short distances as a facilitator for FDI within SSA. Looking at Economic distance, here again short distances were observed between countries. While South Africa is considered one of the most developed countries in the region with one of the highest GDPs, GDP per capita is a different question. Nevertheless, it does appear that MTN has approached markets with a similar level of economic development. Due to large gaps in data, most of the values for Financial distances for our case countries were not available, making any conclusions unfortunately impossible for this dimension. For the Geographic dimension, a wide variety of distance is found between countries. Indeed, MTN has invested in countries as close as Swaziland and as distant as Guinea-Bissau. Additionally, the mediating role of geographic distance was discussed, where it was explained that its effects are ambivalent. Comparatively small distances were also found between our countries in terms of Global Connectedness. This finding is significant as internet access is a key determinant of MTN's business model relying on networks. While relatively small distances were observed in the Knowledge dimension, this dimension was not considered particularly relevant to the nature of

MTN's or other non-R&D intensive businesses. Finally, aside from three countries and one for which values were missing, most countries selected for analysis displayed relatively small Political distances to South Africa. Considering the relevance of host governments and politics for large foreign investors, these findings are significant for the FDI literature in a Sub-Saharan setting.

Therefore, can it be concluded that cross-national differences explain the contrasting approaches in foreign direct investment patterns between regional and foreign investors in Sub-Saharan Africa? As is usually the case, the link between the two variables is not entirely direct and one cannot assert this with confidence. Given the diversity in the Sub-Sahara, it is difficult to clearly place countries in categories based on their scores in the methodology. However, there is a pattern of (South African) investors seeking host countries with a degree of institutional similarity, which when looking below the surface shows that the effect is spread over many dimensions. This displays initial support for my hypothesis, although more research on the topic of intra-African FDI is needed before this area of the field can become established.

The conclusions I have reached in this thesis are in no way definitive. My intention through this research was not to paint the investment landscape across Sub-Saharan Africa, but rather to attempt to shed some light on a largely under researched field for which there is a wide lack of data. There is a dominant bias towards the concept of multinationals in developing countries being of developed country origin. However, the literature on development has recently opened to the analysis of developing country multinationals. By looking at the case of MTN, one of if not the continent's largest telecommunications company, I hope to illuminate a South African-owned firm's potential in contributing to economic development not only domestically but also for its neighbors. This finding has wider implications for other Sub-Saharan MNEs equally in the telecoms sectors: some of the region's native and most valued companies include Safaricom of

Kenya or Sonatel of Senegal. Furthermore, given the region's infrastructure gap, it also stands to gain from the rise of large construction related MNEs such as Dangote Cement or BUA Cement of Nigeria, which could contribute to regional development (Oluwole, 2022).

Future research in this field could offer much potential if additional econometric analyses were conducted on the available data. Furthermore, studies and experiments engaging in on-the-ground data collection would prove extremely valuable in enhancing knowledge of developments in Sub-Saharan Africa. By understanding the dynamics of inter-African FDI, we can begin to comprehend and appreciate the implications of this phenomenon for future development.

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