

## Foreign Direct Investment Plans of Multinational Enterprises Currently Operating in South Africa

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**Abstract:** The objective of this study was to examine factors in the South African business environment that influence the foreign direct investment decision-making plans of multinational enterprises in the country. Although studies on foreign direct investment do exist, they have focused primarily on the determinants of foreign direct investment. Relatively little is known about the dynamics of foreign direct investment plans of multinationals already operating in the country. An internet survey was conducted with 76 senior executives from South African multinational enterprises. The findings demonstrate that macroeconomic, political, government policy, labour issues, bureaucracy, red tape, corruption and crime all influence the investment plans of these enterprises. However, despite this evidence, the multinationals do not intend to close down some or all operations in the country within the short term (next 1-3 years). This study expands the body of knowledge on foreign direct investment and multinational enterprises, shedding light on their operations and investment plans in African countries. This research will be useful for policymakers in South Africa as to decision-making by multinationals on foreign direct investment in the country. The study is also a starting point for future research on the dynamics behind foreign direct investment decision-making.

**Keywords:** Foreign direct investment; multinational enterprises; exploratory factor analysis; South Africa

**JEL Classification:** F21; F23; F43; O44

### 1. Introduction

Foreign direct investment (FDI) is defined as “an internationalisation strategy by which the firm establishes a physical presence” in a foreign country through control and ownership of property, human resources, monetary assets, machinery, equipment and technology (Cavusgil, Knight & Riesenberger, 2017, p. 410). Multinational enterprises (hereafter referred to as MNEs) engage in FDI when they expand their business operations in host countries. Although FDI results in increased profits, sales and market share for MNEs, it also involves uncertainty, increased costs

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and the risks of doing business in a host country (Doh et al. , 2003). Williams (2017) observes that governments and non-governmental organisations in many countries have begun to pay closer attention to the potential economic benefits of attracting large inflows of FDI.

FDI is mainly positive for a host country because it creates jobs (Jadhav, 2012), transfers technology to local firms, promotes local competition, furthers human capital development and generates revenue through corporate taxation (Ucal, 2014). Several studies have also found that FDI contributes to eradicating poverty in developing countries (Fowowe & Shuaibu, 2014; Ucal, 2014; Soumare, 2015). Previous studies on the link between FDI and growth in South Africa (Fedderke & Romm, 2006; Moolman, Roos, Le Roux & Du Toit, 2006; Masipa, 2018) have found that FDI is an important contributor to economic growth and development in the country.

Since the fall of apartheid and the advent of democracy in South Africa in 1994, the African National Congress (ANC) government introduced a variety of laws, regulations, policies and plans to promote growth and development, restructure and transform the country and ensure its successful participation in the international economy (Magombeyi & Odhiambo, 2018). The ANC-led government identified FDI as an instrument that could stimulate economic growth and prosperity in the country (National Planning Commission, 2011).

However, South Africa has underperformed in comparison to other BRICS (Brazil, Russia, India, China and South Africa) countries in attracting FDI. For example, the *2017 World Investment Report* indicates that FDI inflow to BRICS countries was as follows: Brazil – US\$ 45 billion, Russia – US\$ 38 billion, India – US\$ 44 billion, China – US\$ 108 billion and South Africa – US\$ 2.3 billion (UNCTAD, 2017). The *2018 A. T. Kearney FDI Confidence Index* indicates that South Africa does not appear on the list of 25 countries identified as being attractive FDI locations (Global Business Policy Council, 2018).

Additionally, due to a weak economic environment and an uncertain political and policy environment, domestic investment by the private sector has been declining since 2015 (National Treasury, 2018). This is concerning because when domestic private sector investment starts falling, it indicates a lack of confidence in the country's business environment. Consequently, MNEs in South Africa will also start contemplating whether they should close (disinvest) or expand (invest) business operations in the country. The National Treasury (2018) indicates that this is worrying as the country relies heavily on FDI because domestic savings are inadequate.

Although studies on FDI in South Africa do exist, they have focused chiefly on the determinants of FDI in South Africa (Fedderke & Romm, 2006; Gray, 2011; Mabule, 2012). Relatively little is known about the FDI decision-making plans of MNEs

already operating in the country. For instance, there is scant information on factors which influence MNEs' decisions to either expand or close business operations in South Africa. The research questions addressed in this study are:

*RQ1.* What factors influence the plans of MNEs presently operating in South Africa in relation to them expanding business operations in the country?

*RQ2.* What factors influence the plans of MNEs presently operating in South Africa with regards to them closing down business operations in the country?

*RQ3.* Do MNEs currently operating in South Africa have plans to close down or expand existing business operations within the next 1-3 years?

The contribution of this study is threefold:

1) This research expands the body of knowledge on FDI and MNEs. The study sheds light on MNEs' operations and decision-making in African countries, with specific focus on factors influencing their plans to expand or close down operations. To the best of our knowledge, this is the first study that provides a uniquely South African perspective on FDI decision-making by senior executives of MNEs doing business in the country.

2) This study provides insight to South African policymakers on the decision-making of MNEs regarding FDI in South Africa.

3) This study is a starting point for future research on the dynamics behind FDI decision-making in Africa. It also provides a basis for other international studies to compare their findings against an emerging market.

This paper is divided into five sections. In section one, the introduction is presented. Section two outlines the literature in the study and this includes the business environment in post-apartheid South Africa, and theoretical and empirical reviews. Section three describes the methodology used in the study while section four presents and summarises the results. The paper concludes with an overview of the implications and suggestions for future research.

## **2. Literature Review**

### **2.1. Business Environment in Post-Apartheid South Africa**

In 1994, when South Africa became a democracy, the African National Congress (ANC) was voted into power. The party continues to govern the country to this day under the leadership of the current president, Cyril Ramaphosa. When the ANC initially came to power, it was very popular, especially among the rural masses. It was regarded as the party that spearheaded the country's liberation (Market Line,

2017). Nelson Mandela became the first head of state of the new democratic South Africa.

The OECD (2017) and the IMF (2018) state that under the ANC government the country has made much progress in improving economic growth and development. Over the last 20 years, access to education, health, housing, sewage and electricity has vastly improved. From 1980 to 1993, gross domestic product (GDP) growth averaged 1.4% per annum, increasing to 3.3% per annum from 1994 to 2012 (IDC, 2013).

On the positive side, the country has a first-class banking system and financial sector (Market Line, 2017), electricity supply has improved and the national minimum wage will bring down inequality (OECD, 2017). The country has ample natural resources, the biggest stock exchange in Africa and other economic sectors that are well-established, notably, energy, communications, law and transport (Heritage Foundation, 2018).

However, economic growth slowed down substantially during the Jacob Zuma presidency (May 2009 to February 2018) due to political instability and uncertainty regarding policy (Best, 2018), increased labour strikes, poor electricity supply and a loss of confidence by business (Market Line, 2017). From 2012 onwards, GDP growth decelerated and by 2017, it had plummeted to 1.1% (Market Line, 2017). The IMF (2018) points out that falling growth has undone the gains achieved in the social and economic spheres since 1994. As reported by PwC (2018), before 2013 South Africa was regarded by investors as having the lowest political risk of all the BRICS countries. However, since 2013 the country has been re-classified as an emerging market economy with high economic and political risk and medium risk in the financial market, according to *Best's 2018 Country Risk Report* for South Africa (Best, 2018).

Under the Zuma administration, the country became a kleptocracy, characterised by widespread and extensive public sector corruption, state capture, theft and mismanagement of public funds. This has had devastating consequences on the country's economy, fiscal situation and service delivery. Mbeki *et al.* (2018) indicate that under the Zuma presidency last year, the country went into an economic recession and the government deficit ballooned. Additionally, due to increased political instability, in 2017 the country's credit rating slipped to junk status (Heritage Foundation, 2018). In 2017, business confidence was the lowest that it had been for 16 years (Jonas, 2018). Jonas (2018) states that in 2013, South Africa was regarded as the second most attractive FDI location in Africa for MNEs, however, by 2016 it had fallen to sixth position. This clearly indicates that MNEs have become discouraged as to the attractiveness of the country as an investment destination.

In 2017, the country's unemployment rate spiralled to 27.7% (National Treasury, 2018). Over 50% of South Africans live in poverty (UNDP, 2018) and the country

“has developed into one of the most unequal societies in the world” (National Planning Commission, 2011, p. 110). For example, the World Bank (2018) points out that 1% of the country’s population owns almost 71% of its wealth. Openness to inward FDI in the country is poor (Heritage Foundation, 2018).

On the political front, the environment has been riddled with factionalism (Market Line, 2017), policy uncertainty and power struggles. As claimed by Market Line (2017), the ANC government has become increasingly unpopular due to worsening unemployment, inequality and poverty, corruption and the inefficient use of resources, increased labour strikes and poor progress in land reform. As a consequence of this deteriorating business environment, it has become more challenging for businesses to operate in the country and this has led to a loss of business confidence since 2013 (PwC, 2018).

Cyril Ramaphosa became President of South Africa in February 2018 after former President Jacob Zuma’s resignation. This change in leadership has created renewed optimism in the country (World Bank, 2018). President Ramaphosa has indicated that he wants to put the country on a path to economic growth and prosperity. He has introduced an economic reform programme called a “New Deal for South Africa” which focuses on attracting MNEs and FDI to the country (PwC, 2018).

Dassah (2018) asserts that since the beginning of Jacob Zuma’s presidency, state capture and corruption in government increased substantially. The Gupta family, who are originally from India, came to the country in the early 1990s and established several businesses. They developed a close friendship with the then President Zuma and his family, government ministers and other influential politicians in the ANC (Dassah, 2018). The family was consequently awarded lucrative government tenders and contracts valued at hundreds of millions of dollars by the South African government and state-owned enterprises. Many of these tenders awarded to the Guptas resulted in lack of service and goods delivery. Consequently, an investigation into the nature and extent of state capture is being undertaken in the country. Jonas (2016) maintains that this capture of the state has severely weakened South Africa’s status as a developmental state and undermined its influence.

Doh *et al.* (2003) emphasise that public sector corruption has an adverse effect on firms because it raises the costs of doing business. The indirect costs of public sector corruption in South Africa have been associated with decreasing FDI and domestic investment, macroeconomic imbalances, increased unemployment, inequality and poverty, inadequate infrastructure and reduced public expenditure (Doh *et al.* , 2003). Furthermore, the level of crime and the nature of violent crime in the country is escalating (De Wet *et al.* , 2018). For instance, there has been a 439% increase in criminals sentenced to 20 or more years and a 413% increase in life sentences (Thobane & Prinsloo, 2018).

High levels of government corruption in the country are increasing the costs of MNEs doing business in the country (Doh et al. , 2003). Added to this are regulatory barriers, red tape, complicated and expensive customs procedures and weak and inadequate infrastructure (OECD, 2017). According to the World Bank (2018), in the last three years, there have been very few reforms introduced to ease the regulatory environment for business. Instead, more regulation has been implemented in the form of fee increases that have to be paid by businesses (World Bank, 2018). Encouragingly, South Africa does not have sector-specific FDI restrictions, which is positive for MNEs (PwC, 2018). However, there are many labour regulations that are regarded as being too restrictive in terms of the hiring and firing of workers (IMF, 2018).

## 2.2. Theoretical Review – Eclectic Paradigm Theory

The most comprehensive and frequently used theory to explain why firms undertake foreign direct investment is that developed by the late Professor Dunning. Known as the Eclectic Paradigm Theory (Cavusgil et al. , 2017), this perspective combines key ideas from several foreign direct investment theories such as the Monopolistic Advantage Theory constructed by Hymer in 1976 and the Internalisation Theory proposed by Buckley and Casson in 1976 (Moosa, 2002). Peng and Beamish (2008) explain that according to the Eclectic Paradigm Theory, a firm will invest overseas for the following reasons: ownership (O), location (L) and internalisation (L).

(O) Ownership refers to specific advantages that a firm holds over its rivals in a marketplace (Dunning, 1979). When firms possess such advantages, they are able to compete more effectively in international markets (Dunning, 1980). Examples of ownership-specific advantages include technological know-how, well-recognised and famous brands, abundant resources, intellectual capital, skills and managerial competencies and effective distribution channels (Dunning, 1979; 1980).

(L) Location refers to the comparative advantages that certain countries possess over other countries, which are attractive to firms (Cavusgil et al. , 2017). For instance, some countries have rich natural resources, an abundant supply of skilled, low-priced labour, modern and reliable infrastructure, easily accessible low-cost capital and a range of government incentives offered to foreign firms (Dunning, 1979; 1980; Peng & Beamish, 2008). According to Sitkin and Bowen (2010), a country should possess some comparative advantages for it to be considered a suitable location for foreign direct investment by international firms.

(I) Internalisation refers to a firm's internal advantages which motivate it to expand and undertake foreign direct investment (Peng & Beamish, 2008). This means that a foreign firm will locate itself in a foreign country and create its own value chain activities such as manufacturing, marketing, research and development in another

country (Buckley & Casson, 1976; 2011). Examples of internalisation are when a multinational enterprise builds its own factories, plants, manufacturing capabilities and subsidiaries in a foreign country. Internalisation advantages of a firm include retaining control of its own operations and value-chain activities, as opposed to outsourcing them to another firm, decreased transaction costs and communication and transport costs (Dunning, 1979).

Andersen (1997) argues that a key strength of the Eclectic Paradigm Theory is that it encompasses several FDI theories. Cantwell and Narula (2003) add that this theory is still widely used when discussing MNEs' foreign investment activities. However, Moosa (2002) cautions that a drawback of the Eclectic Paradigm Theory is that it is too broad and does not take into consideration that every country has a different investment environment and unique circumstances.

### 2.3. Empirical Review

The determinants of FDI is a topic that has been exhaustively researched (Rachdi, Brahim & Guesmi, 2016). Due to the vast amounts of literature on this subject, this section focuses on studies specifically related to South Africa.

**Table 1. Determinants of Foreign Direct Investment in South Africa**

Year	Author/s	Title of study	Determinants of FDI
2000	Schoeman, Clausen, Robinson & De Wet	Foreign direct investment flows and fiscal discipline in South Africa	Fiscal discipline, increased domestic savings, low corporate tax and a reduced government deficit.
2005	Ahmed, Arezki & Funke	The composition of capital flows: Is South Africa different?	Trade and capital liberalisation, infrastructure, stable exchange rates.
2006	Fedderke & Romm	Growth impact and determinants of foreign direct investment into South Africa, 1956-2003	Low wage costs, an open economy, high levels of exports, property rights, political stability and economic integration.
2006	Moolman, Roos, Le Roux & Du Toit	Foreign direct investment: South Africa's elixir of life?	Market size, infrastructure, an open economy and a strong currency.
2010	Dlamini & Fraser	Foreign direct investment in the agriculture sector of South Africa	High levels of productivity in the agricultural sector in South Africa.
2011	Smit & Ngam	Foreign direct investment of Chinese-owned small	Access to local markets, and the size of the market in South Africa.

		and medium enterprises: Motives for choosing South Africa	
2018	Masipa	The relationship between foreign direct investment and economic growth in South Africa: Vector error correction analysis	High labour costs, corruption and crime.
2018	Dondashe & Phiri	Determinants of FDI in South Africa: Do macroeconomic variables matter?	Rate of inflation, size of government, interest rates, GDP and trade terms.

### 3. Methodology

This study is based on a quantitative research approach.

#### 3.1. Population and Sampling

The population included all senior executives employed at MNEs in the country. The sample consisted of 400 senior executives currently employed at MNEs in South Africa, representing various economic sectors. The names and contact information of the 400 senior executives were obtained from a database called “Multinational Companies in South Africa” developed by Business Monitor International.

#### 3.2. Data Collection and Analysis

In order to obtain data on the three research questions in this study, an Internet-based survey was carried out. A survey allows the researcher to investigate the views, attitudes and opinions of a particular sample (Edmonds & Kennedy, 2013). An Internet-based survey was deemed best-suited for the purposes of this study for the following reasons: i) Zikmund *et al.* (2013) state that Internet-based surveys are attractive as they allow for data to be collected swiftly and inexpensively; ii), the sample in this study had access to the Internet as well as the technical knowledge to use the Internet (Sue & Ritter, 2012); and iii) Internet-based surveys cover a broad geographical area and are inexpensive to follow up (Blair *et al.*, 2014). The survey questionnaire included a cover letter explaining the purpose of the research as well as a consent form which indicated that anonymity and confidentiality would be maintained. A hyperlink was provided which respondents were requested to click to access the survey on the Internet. A total of eleven questions formed part of the survey. Five questions obtained biographical information about the respondents while the remaining questions contained a sub-group of closed questions to elicit



respondents' opinions on their MNE's business operations in South Africa. The survey questions were close-ended and a five-point Likert scale was used, ranging from 1 = strongly influential to 5 = no influence at all. During the data collection period, the researchers sent out three emails to respondents which included follow-up emails. After the third email was sent, a total of 76 respondents answered the biographical questions on the survey. However, only 62 respondents answered the questions on the MNEs' FDI plans. The survey data was analysis using SPSS 22.0 software. Data analysis involved performing exploratory factor analysis. Descriptive statistics were employed to describe the sample in this study. Exploratory factor analysis was used to determine the impact of business environment factors on MNEs' FDI decision-making. Furthermore, exploratory factor analysis was used to investigate whether MNEs in the country planned to expand or close business operations within the next 1-3 years.

## **4. Results and Discussion**

### **4.1. Profile of the Respondents**

Of the 400 senior executives who were contacted and requested to complete the survey, 76 responded. However, a few of the 76 respondents failed to answer all the biographical questions. The following is a description of the sample:

*Economic sector represented:* Seventy-four respondents answered this question. In terms of the economic sectors represented by the respondents, the majority was from banking and finance (23%), manufacturing (15%), services (15%) and mining (12%). Other respondents were from sectors such as pharmaceuticals, food and consumer packaged goods, electronics, clothing and textiles, energy, agriculture and retail.

*Job titles of respondents:* This question was answered by 74 respondents. Almost one third (24%) indicated that they were CEOs or managing directors, 28% were executives, 36% were directors, 4% were CFOs and the rest classified themselves as 'other'.

*Number of employees:* Seventy-five respondents answered this question. In terms of the number of employees that the respondents MNEs employ, the overwhelming majority of respondents (81%) answered that their MNE employed more than 300 workers. The rest of respondents said that their MNE employed up to 300 workers.

*Number of years in South Africa:* Seventy-six respondents answered this question, with 85% reporting that their MNE had been operating in South Africa for over 25 years. The rest of the respondents said that their MNE had been conducting business in the country for less than 25 years.

*Annual turnover:* This question was answered by 76 respondents. In terms of the annual turnover in South Africa, the vast majority – or 79% of respondents – replied that their MNE had an annual turnover in excess of R500 million. The rest said that their MNE’s annual turnover was up to R500 million.

#### **4.2. Factor Analysis: Factors Influencing MNEs’ Decisions to Expand Their Business Operations in South Africa**

The findings regarding the exploratory factor analysis in this paper are presented according to the format used by Kruger *et al.* (2012). The purpose of this question was to obtain the views of the sample on the factors that influence the decision of whether or not the MNE will expand its business operations in South Africa. Sixty-two respondents answered this question. Bartlett’s tests of sphericity and KMO measurement were undertaken to determine the appropriateness of the data before undertaking factor analysis (Pallant, 2013). The KMO value was .806, indicating that factor analysis could be performed. Bartlett’s test of sphericity confirmed statistical significance (see Table 2). Principal axis factoring (PAF) was conducted on the question items. When deciding on the number of factors to be extracted, factors that had eigenvalues of 1.0 or more were considered. PAF showed that there were two factors with eigenvalues greater than 1 (4.74 and 1.47).

**Table 2. KMO and Bartlett’s test**

Kaiser-Meyer-Olkin measure of sampling adequacy		.806
Bartlett's test of sphericity	Approx. chi square	293.832
	Df	45
	Sig.	.000

The factor matrix was rotated using Varimax rotation with Kaiser normalisation (see Table 3). The factor loadings regarding the issues influencing MNEs expanding their business operations in South Africa are shown in Table II. PAF revealed two components that had eigenvalues explaining 30.75% and 22.18% of the variance, respectively. The two factors comprised 52.93% of the total variance. Both factors had somewhat high reliability coefficients with Cronbach’s alpha at 0.87 and 0.78, indicating good support for internal consistency for these factors. The mean inter-item correlation values for the two factors indicated an acceptable level of internal consistency. Two factors were identified.

**Table 3. Varimax Rotated Factor Loadings of the Issues Influencing MNEs Expanding their Business Operations in South Africa**

Factors and items	Factor loading	Mean value (N)	Reliability coefficient	Mean inter-item correlation
<b>Factor 1: Macroeconomic, political environment and government policies in South Africa</b>		<b>1. 984</b> N=62	<b>0. 872</b>	<b>0. 586</b>
	0. 792			
	0. 790			
1. The unstable political environment in South Africa	0. 732			
2. The high level of corruption in South Africa	0. 698	<b>2. 406</b> N=65	<b>0. 787</b>	<b>0. 430</b>
3. The unstable economic environment in South Africa	0. 657			
4. The high crime rate in South Africa	0. 727			
5. The poor government policies to support businesses in South Africa	0. 695			
	0. 641			
	0. 527			
	0. 478			
<b>Total variance explained</b>	<b>52. 93%</b>			
<b>Factor 2: Red tape, bureaucracy and labour issues in South Africa</b>				
1. The high cost of labour in South Africa				
2. The inflexibility of labour laws in South Africa				
3. The lack of skilled workers in South Africa				
4. The high amount of red tape and bureaucracy in South Africa				
5. The low cost of labour in neighbouring countries				

Factor analysis revealed that there were two components with eigenvalues greater than 1, explaining 30. 75% and 22. 18% of the variance. Factor one explained 30. 75% of the total variance and consisted of five items related to this factor. Factor one measured the influence of the macroeconomic, political environment and government policies on MNEs' business expansion plans in the country. Factor two accounted for 22. 18% of the total variance and consisted of five items that reflected

the respondents' views on red tape, bureaucracy and labour issues in South Africa. The findings provide evidence of a link between the quality of the economic and political environment, bureaucracy, expensive labour, rigid labour laws, crime and corruption in South Africa and MNEs' expansion plans in the country.

#### **4.3. Factor Analysis: Factors Influencing MNEs' Decisions to Close Business Operations in South Africa**

This question examined the factors that influence MNEs' plans to close down operations in South Africa. Sixty respondents answered this question. Prior to performing PAF, it was first determined whether the data was suitable to perform factor analysis. The KMO and Bartlett's test of sphericity were undertaken on the items (see Table 4).

**Table 4. KMO and Bartlett's Test**

Kaiser-Meyer-Olkin measure of sampling adequacy		.909
Bartlett's test of sphericity	Approx. chi square	649.153
	Df	55
	Sig.	.000

The KMO value was 0.909, which is very positive and means that factor analysis could be carried out. This was enhanced by Bartlett's test of sphericity where  $p < 0.001$ . Kaiser's criterion was used in order to calculate eigenvalues so as to decide on the number of factors to extract. PAF revealed that there was a single factor that had an eigenvalue greater than 1 (7.52), which accounted for 65.50 percent of the total variance. Therefore, only one factor was extracted and the solution could not be rotated (see Table 5).

Factor one was labelled in terms of similar issues and interpreted the total variance of 65.50%. There were 11 items that were grouped together for this factor. The one factor had a reliability coefficient with Cronbach's alpha of 0.953. This was regarded as very strong internal consistency. The mean inter-item correlation for the 11 items was 0.647, denoting an acceptable degree of internal consistency. Eleven items were connected to the factor that related to the negative factors that influence MNEs to disinvest (close business operations) in South Africa.

**Table 5. Factors that Influence MNEs Closing Business Operations in South Africa**

Factor and items	Factor loading	Mean value (N=60)	Reliability coefficient	Mean inter-item correlation
<b>Factor 1: Negative factors that influence multinational enterprises to disinvest (close business operations) in South Africa</b>		<b>2.675</b>	<b>0.953</b>	<b>0.647</b>
1. The unstable economic environment in South Africa	0.900			
2. The poor government policies to support businesses in South Africa	0.870			
3. The high amount of red tape and bureaucracy in South Africa	0.863			
4. The unstable political environment in South Africa	0.848			
5. The high crime rate in South Africa	0.848			
6. The high cost of labour in South Africa	0.840			
7. The lack of skilled workers in South Africa	0.816			
8. The inflexibility of labour laws in South Africa	0.816			
9. The high degree of corruption in South Africa	0.816			
10. The low cost of labour outside of South Africa	0.808			
11. The many corporate social responsibilities that firms are faced with when operating in South Africa	0.651			
<b>Total variance explained</b>	<b>65.50%</b>			

The findings provide convincing evidence that negative factors such as an unstable economic and political environment, together with a lack of government policies that are supportive and consistent with supporting businesses, influence MNEs' plans to close business operations in the country. Other factors that have an influence on MNEs' plans to close down some or all business operations in South Africa include the high levels of red tape and bureaucracy that exist in the country, which make it difficult to do business. Additionally, a high crime rate, expensive labour costs, a lack of skilled workers, rigid labour laws and rampant corruption also discourage MNEs' operations and shape their plans regarding the closing down of business operations in the country.

#### **4.4. Factor Analysis: MNEs' Plans to Expand or Close Business Operations in South Africa**

This question sought to determine whether MNEs planned to expand or close business operations in South Africa within the next 1-3 years. Sixty-two respondents answered this question. Before performing PAF, it was first determined whether the data was suitable to perform factor analysis. The KMO and Bartlett's test of sphericity were undertaken on five items in the group (see Table 6).

**Table 6. KMO and Bartlett's test**

Kaiser-Meyer-Olkin measure of sampling adequacy		.642
Bartlett's test of sphericity	Approx. chi square	32.910
	Df	3
	Sig.	.000

This was confirmed by Bartlett's sphericity test where  $p < 0.001$ . Eigenvalues were calculated using Kaiser's criterion in order to find out the number of factors to extract. PAF showed that only one factor had an eigenvalue greater than 1 (91.87), which explained 45.57% of the total variance. Only one factor was extracted and the solution could not be rotated (see Table 7).

**Table 7. MNEs plans to Expand or Close Business Operations in South Africa**

Factor and items	Factor loading	Mean value (N=62)	Reliability coefficient	Mean inter-item correlation
<b>Factor 1: Multinational enterprises' plans to extend or close business operations in South Africa</b>		<b>4.263</b>	<b>0.676</b>	<b>0.434</b>
1. My firm plans to close some of its business operations in South Africa in the next 1-3 years	0.825			
2. My firm plans to close all of its operations in South Africa in the next 1-3 years	0.636			
3. My firm plans to expand its operations in South Africa in the next 1-3 years	-0.532			
<b>Total variance explained</b>	<b>45.57%</b>			

The factor extracted was labelled according to related issues. The reliability coefficient for this factor had a Cronbach's alpha of 0.676. Factor one had three items. When there are less than ten items on a scale, the reliability coefficient is small (Pallant, 2013). The mean inter-item correlation was 0.434 which points to an acceptable degree of internal consistency. The mean value was 4.263. The finding here is that although there is a link between the factors that influence the FDI plans of MNEs currently operating in South Africa, respondents indicated that their MNE did not intend to close down some or all of its business operations in the country within the next 1-3 years. This was an interesting finding given that MNEs were influenced by factors in the South African business environment. One needs to remember though that FDI is the riskiest and most costly foreign market entry

strategy. Therefore, if MNEs in the country close down some or all business operations in the short term, this could result in negative financial implications.

## 5. Conclusion

This paper investigated the factors that influence the FDI plans of MNEs currently operating in the country. The study also examined whether MNEs in the country had plans to close down some or all of their business operations or to expand their value chain activities in the country within the next 1-3 years. The findings demonstrate that macroeconomic, political, government policy, labour issues, bureaucracy, red tape, corruption and crime all influence MNEs currently operating in South Africa. However, despite evidence of this link, MNEs do not intend to close down some or all operations in the country within the short term (next 1-3 years).

The implications for policy makers are that they need to be aware of the factors identified in this study, which do influence MNEs' FDI plans in South Africa. The South African government should work towards creating a more conducive business environment in the country. The commercial impact on MNEs of operating in a high-risk business environment is that it could result in increased costs of conducting business in the country and subsequently, disinvestment. This study is a starting point for further research on the dynamics behind FDI decision-making in Africa. The research also provides a basis for other international studies to compare their findings against an emerging market.

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