Factors driving the location investment decision of South African MNEs: Senior executives' perceptions

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ABSTRACT

As trade barriers fell, South African enterprises faced new competition in their previously protected home market. With established markets becoming saturated, multinational enterprises (MNEs) steered towards emerging markets abroad. Geographically, South Africa is an intrinsic part of Africa, and psychic distance, defined as consisting of, inter alia, differences in language, culture and business practices, can disturb the flow of business between an enterprise and the world. Physical proximity to countries makes it easier for enterprises to understand the culture and business practices, and reduces the uncertainty and risk of the new market. Perceived distance into Africa and elsewhere is also influenced by the specific consumer attributes and behaviours. Enterprises perform best in foreign markets where consumer behaviour is most receptive to a company's goods and services. The study empirically investigated perceptions of psychic distance and foreign consumer factors in FDI decision making by senior executives of South African MNEs. The findings suggest that psychic distance is relatively unimportant and foreign consumer factors relatively important in FDI decision making.

Key words: Psychic distance, consumers, executive biographical factors, South African MNEs, senior executive perceptions

Introduction

When a firm decides to invest in a foreign market, it has to first decide which foreign market it will select for its foreign expansion (Sousa & Lages 2011). This decision is one of the most important for managers of MNEs since it ensures the continued

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success (or otherwise) of the firm (Malhotra, Sivakumar & Zhu 2009; Sousa & Lages 2011). Managers have to feel that they understand a market and are comfortable operating in it in order to justify foreign direct investment (Dow 2000; Johanson & Vahlne 1977).

Johanson and Wierdersheim-Paul (1975: 308) define psychic distance as "the sum of factors preventing or disturbing the flows of information between firms and markets". Senior managers/executives of MNEs will generally tend towards countries with which they are familiar, and only then, as they gain FDI experience, will investment be made in markets with which they are unfamiliar. Psychic distance is therefore the result of perceived differences between the MNE's home environment and that of the foreign market (Stottinger & Schlegelmilch 1998; Ellis 2000), and is therefore considered to be a significant predictor of international market selection (Dow 2000).

South African firms have evolved in the new democratic business environment as they face new challenges. During the apartheid years under the National Party government, South African enterprises stayed at home (because of sanctions), a tendency that was reinforced as international controversy about apartheid intensified. Sanctions created an economic quarantine, in which South African enterprises had to focus their energy on their modest domestic market. As trade barriers fell and with established markets becoming saturated, multinational enterprises (MNEs) steered towards emerging markets, that is, markets considered to be at the bottom of the business pyramid. These markets provided new opportunities and unique challenges (London & Hart 2004; Luiz & Charalambous 2009). Africa remained an untapped market in which some economies were so weak that the governments concerned, in a desperate attempt to reverse the economic slide, sought to entice potential investors with attractive incentives. South African enterprises, desperate for new sales, responded eagerly to these enticements (Lancaster 1992; Luiz & Charalambous 2009; Miller 2005).

When borders were opened with the rest of Africa and trade barriers removed, it was a perfect opportunity for a country like South Africa with a developed infrastructure to invest in Africa.

Owing to South Africa's dual economy, FDI from South Africa is predominantly into Europe (as indicated in Tables 1 and 2 below). A possible reason for this is that South Africa has many financial characteristics in common with the advanced countries. The South African dual economy has produced a number of enterprises that appear to deviate from normal expectations. These enterprises have become world-class MNEs with the abilities to compete on an equal footing with enterprises in developed markets. They have advantages that are not location bound, and appear to have more of the characteristics of a MNE from a developed country (Johanson & Vahlne 1977; Klein & Wocke 2007). Tables 1 and 2 present 2005 and 2015 data of the rand amounts and proportions invested by South African businesses (including MNEs) by region.

Table 1: Total FDI stock by South African enterprises by region 2005

Region	R millions	Percentage
Europe	137 356	77
Americas	16 966	9
Africa	15 837	8
Asia	3 510	2
Oceania	6 838	4
Total	180 507	100

Source: South African Reserve Bank 2005

Table 2: Total FDI stock by South African enterprises by region 2015

Region	R millions	Percentage
Europe	1 246 913	78
Americas	150 947	9
Africa	53 370	4
Asia	137 954	8
Oceania	18 835	1
Total	1 608 019	100

Source: South African Reserve Bank 2015

As clearly indicated in Tables 1 and 2, there is extensive investment by South African firms in Europe, which stems from the fact that Europe is psycho-culturally closer to South Africa than many other African countries, as many directors of South African MNEs have cultural roots in Europe (Calof & Viviers 1995; Johanson & Vahlne 1977).

New senior management at many South African multinationals, post-1994, were now black, conforming to black empowerment requirements. The expansion of South African multinationals into other parts of Africa provided opportunities for new regional business consolidations (Miller 2005; Soderbaum 2002). The Unctad (2007) World Investment Report states that South Africa is a leading African source of FDI, accounting for over 70% of the region's total outward FDI stock (Itano 2003; Streak & Dinkelman 2000).

The current study explored the psychic distance concept in a South African context with the focus on whether psychic distance, foreign consumer and individual biographical aspects of executives influence the strategic location decisions of South African firms in Africa and Europe. Although the general strategic management literature widely acknowledges that top management characteristics influence the firm's strategic decisions, little is known about how individual South African management's biographical and psychic distance affects strategic location decisions. In this study, we developed and tested the general hypothesis that psychic factors, manager's background and foreign consumer factors influence the location decision of the firm; and whether in particular, in conformance with the psychic distance concept, the firm would enter a foreign location, which the manager would be most familiar and only then move on to less familiar locations (Dunning 2003). Figure 1 presents a diagrammatic representation of the basic elements of the analytical framework.

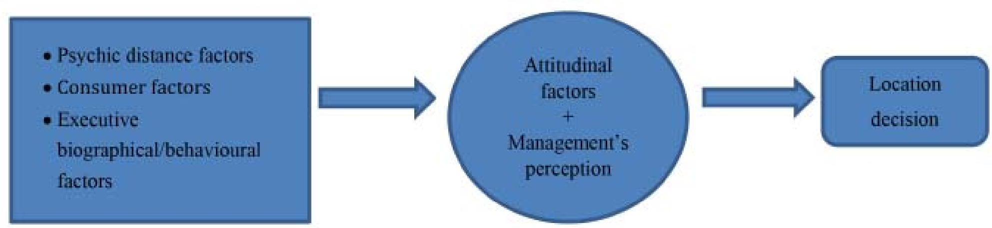

Figure 1: A diagrammatic representation of the analytical framework

The remainder of this paper is structured as follows: The next section describes the literature review, presents theoretical justifications and develops the hypotheses for the paper. Thereafter we provide details on the operationalisation of the measures, and a description of the method used for the data collection. This section is followed by data analysis, discussion of the results and the conclusion.

Location: The dependent variable

The motivations for the enterprise to expand beyond borders can be grouped into resource seeking, market seeking and strategic asset seeking (Dunning 1993). Host country-specific advantages are one of the three types of dominant forces that trigger international expansion. Enterprises are prompted to invest abroad to acquire particular and specific resources at lower real costs than could be obtained in their home country. The motivation for expansion internationally is to make the investing enterprise more profitable and competitive in the markets it serves or intends to serve (Dunning 1993; Luo 1999).

However, factors other than those already described, can contribute to the FDI decision-making process, such as those pertaining to unique, enterprise-specific aspects of the organisations concerned.

Industry-specific information on market factors such as market size, market growth rate, level of competition and entry barriers, is another popular approach used in several research studies (Ball & McCulloch 1993; Cavusgil 1980; Daniels & Radebaugh 1998; Koch 2001; Papadopoulus & Jansen 1994; Rahman 2003.

Zhao and Decker (2005) showed that revenue-related factors such as market price (of the intended product) and market size, and service-related factors such as delivery time and proximity to the market, can in specific contexts be equally important. In this regard, market size was found to be the most important motivator of German firms' decisions to invest in China.

In a recent study, Luiz and Charalambous (2009) investigated key factors considered by South African companies operating in the financial services sector when investing in sub-Saharan Africa. The study found that the predominant factor was the political and economic stability of the market. Other factors that were found to have a bearing on investment were the sophistication and availability of the information technology and other infrastructure components of the local economy, and the existence of a credible financial system.

Once the MNE has decided to internationalise in a specific location, it has to decide how to enter the foreign market, that is, what entry mode to use. According to normative decision theory, this decision is based on trade-offs between risks and returns. Each individual entry mode will have some effect on the level of control the firm enjoys over its foreign operations, or on the size of investment required or degree of risk the firm faces as a result of entering foreign markets. Normally a firm experiences an overall increase in control, investment and risk when it moves from merely licensing or franchising to fully fledged joint ventures and Greenfield investments (Agarwal & Ramaswami 1992; Anderson & Gatignon 1986).

A number of environmental/contextual variables can also influence the MNE's choice of entry mode. These include political and operations' risks, psychic distance, consumer demand and competitive conditions in the host market, which directly or indirectly impact upon the resource commitments that the MNE would be required to undertake. If the MNE perceives such environmental risks to be high, it will limit its exposure through limiting its ownership in foreign ventures (Bradley 1977; Hill, Hwang & Kim 1990; Kobrin 1983; Vernon 1979).

Perceived differences (distance) between the home and host country regarding culture, economic systems and business practices determine location familiarity. The greater the perceived distance between home and host countries, the higher the probability that the MNE will favour licensing or joint venture investments rather than a Greenfield investment (Johanson & Vahlne 1977; Kobrin 1983; Stopford & Wells 1972).

MNEs have different strategic objectives for international expansion, and individually all have particular purposes for expanding across borders. An important aspect of the investment strategy of MNEs is location selection in realising the enterprise's strategic goals when expanding internationally. The question is whether psychic distance is an intrinsic part of the location selection, and specifically whether management's familiarity with a given location is also an influencing factor.

The psychic distance concept

Psychic distance, as a concept, has been used intermittently by different researchers because it is a key variable in predicting and managing international business expansion. However, there has never been a consistent measurement of the concept by any of the researchers. Rather, attempts at measuring psychic distance are littered with results of different studies that have attempted to give concrete form to the concept.

Hofstede (1980) conducted a survey of IBM employees worldwide, in order to try and give the psychic distance concept world relevance (Benito & Gripsrud 1992; Mitra & Golder 2002). Hofstede's study identified four dimensions that showed significant differences, namely uncertainty-avoidance, individualism, tolerance of power distance and masculinity-femininity. However, Hofstede's (1980) study had certain inherent limitations because of his assumptions regarding cultural distance and, in particular, its stability and symmetry over time (Ellis 2007). Furthermore, his measures did not deal with differences in language, education, political and legal systems or levels of industrial development (Dow 2000).

Brewer (2007) suggests a more comprehensive approach to the measurement of psychic distance through the use of key factors that can be applied to operationalise the psychic distance concept. To test the instrument, psychic distance values were compared with actual market selections made by a group of Australian exporters and results supported Brewer's (2007) psychic distance index, as a valid prediction of location choice. Following on Lockwood's (2004: 507) suggestion that variables for the psychic distance index are based on "subjective judgement plus data availability", Brewer's (2007) measuring instrument elicits data from individual FDI decision makers. He also proposes the measures indicated in Table 3 for his psychic distance index.

Table 3: Brewer's (2007) psychic distance concepts

Measure	
Commercial ties	The existing commercial relationship between countries based on exchange of both goods and services
Political ties	These can enhance relationships between countries and thereby reduce the psychic distance for MNEs
Information availability – trade agreements, defence treaties, levels of diplomatic exchange and aid programmes	They create awareness between countries and add to the flow of information
Historical ties	Countries that share historical ties (e.g. a colonial relationship)
Geographical ties	The actual geographic distance between two countries
Development of the country	A country which is highly developed will have more information about it available
Social ties	Differences in language and culture affect the inflow of knowledge

Using the above measures (see Table 3), Brewer (2007) created an index measuring the"psychic distance" between Australia and 25 other countries. He tested the psychic distance index empirically by comparing statistics on the number of Australian exporters selling into each of the 25 selected countries and found that the concept of psychic distance provided a significant level of predictive accuracy.

Management's perceptions

Management's perceptions of cultural and business differences influence the psychic difference because they are the perceptions that will shape the final decision on whether or not to invest in a foreign market (Evans, Treadgold & Mavondo 2000). Thus perceptual measures of psychic distance are also key predictors of FDI, in addition to macro-level variables (Dow & Karunaratna 2006; Sousa & Lages 2011; Zhao Luo & Suh 2004).

Fletcher and Bohn (1998) explained the concept of psychic distance further by determining what influences management's perception of which market to enter. Bartlett (1986) found that age and the internationalisation experience of senior executives were an influencing factor, as well as their educational background (Bartlett 1986; Fletcher & Bohn 1998). Country of birth and frequency of business trips were other key influences described by Fletcher and Bohn (1998) and by Bartlett (1986).

Knowledge of the international market, with previous exposure to and experience with international transactions, were also prominent factors in driving senior executives to undertake foreign direct investment (Fletcher & Bohn 1998). Reid (1983) showed that management's choice of a foreign location is influenced by their knowledge of the foreign language, previous overseas travel, being a foreign national and their level of education. A company generates more foreign direct investment if management possesses the aforementioned characteristics. Management's characteristics help to reduce the degree of psychic distance because they have a "more realistic perception of the risks associated with doing business in the foreign location" (Fletcher & Bohn 1998: 65).

Hypotheses

Whether it is Africa or Europe, the FDI location decision is the most complex decision that managers must consider. Each location presents unique factors, which can influence the decision of the MNEs' internationalisation process (Dunning 1988; Dunning & Narula 2000). South African MNEs' dominant FDI is in both Africa and Europe (the European Union), two continents that are politically and socio-economically, highly divergent.

Several authors contend that although many factors nudge an enterprise to internationalise, both proactive and intuitive factors play a decisive role (Bilkey 1978; Norvell & Raveed 1980; Papadopoulus & Denis 1988; Simpson 1973).

Kaplan (1983) conducted research on MNEs in Argentina and India – both developing countries – and showed that both of them have a tendency to follow the principles of the psychic distance by investing close to the home markets. However, pre-1994, older and more developed South African MNEs have shown a tendency to invest in the advanced capitalist countries, particularly in the UK and Europe (Chabane, Goldstein & Roberts 2006; Kaplan 1983; Mtigwe 2004). Newer South African MNEs tend to favour closer geographical markets in Africa (Unctad 2007). Also changing senior management in South Africa in response to the requirements of the Black Economic Empowerment Act 53 of 2003, which legislates certain requirements for management's transformation, has led to new conceptions of psychic distance. This tendency has been compounded by the King III report (2009), which prescribes diversity in the board of directors. King III is compulsory for listed companies which have to comply with the requirements of the report, or face possible delisting from the Johannesburg Stock Exchange.

Based on the above considerations, the following hypotheses were formulated:

- $H1_A$: Perceptions of psychic distance by senior executives of South African MNEs are neither important nor unimportant in FDI decisions.
- $H2_A$: Perceptions of foreign consumer factors by executives of South African MNEs are neither important nor unimportant in FDI decisions.
- $H3_A$: South African executive behavioural factors are neither important nor unimportant in FDI decisions.

Methodology

Research design

The study used a cross-sectional quantitative research design that tests the hypotheses with reliable and valid measuring instruments (Cooper & Schindler 2003).

Sample

A survey questionnaire was emailed to a total of 378 South African-based MNEs, utilising a cross-sectional research design. A non-random purposeful sampling technique was used that involved selecting MNEs representing prominent South African MNEs such as mining and manufacturing, on the basis of their current involvement in overseas investments. Although non-random, the sample comprised a representative body of MNEs' executive management and one deemed large enough to give a substantive picture of South African senior executive managements' perceptions of factors pertinent to FDI. All publicly listed and private South African-based companies were included in the sampling frame. The questionnaire was sent to MNE senior management, including CEOs, CFOs and company directors. In total, 105 usable questionnaires were received, presenting an acceptable response rate of 28% for a survey of this kind.

Measuring instruments

In order to measure psychic distance, a uni-dimensional construct is generally used by most researchers, with a limited number of items and without any empirical measure (Dow 2000).

The literature does support a multi-dimensional interpretation, even though a uni-dimensional construct is still favoured (Dow & Ferencikova 2010; Sousa & Lages 2011). The study attempted to expand on the current situation by testing the psychic distance indicators developed by Brewer (2007).

The second dimension in the study consisted of perceptions of consumers' characteristics in the foreign market (Evans et al. 2000; Peterson & Smith 1997; Sousa & Lages 2011). Katsikeas, Samiee & Theodosiou (2006) recommend using a two-dimensional measure of the psychic distance concept, using both macro-environmental factors (comprising economic and legal characteristics), and micro-environmental factors comprising customer characteristics (such as lifestyle), consumer preferences and customer attitudes and traditions. By incorporating a two-dimensional measure of the psychic distance concept, the influence of both the country's and the people's characteristics are addressed, and this is consistent with the psychic distance definition.

A third dimension to be included in the measure is management's profile (age, cultural background, and education and work secondments in a foreign country). It is these characteristics of management that are key drivers of the FDI of a multinational enterprise.

The study used measures devised by Brewer (2007). Respondents were asked to indicate their perceptions of importance of psychic distance items using a Likert scale, where 1 is *very unimportant* and 10 is *very important, with a value of 5 suggesting neither importance nor unimportance.*

Two phases to the process of collecting data were used, namely pre-testing and the main study. A pre-testing phase was carried out on a sample of data, in order to determine whether or not the data collection plan for the study was an appropriate procedure, and to predetermine the survey for any possible errors due to form-design or incorrectly worded questions (Zikmund 2003).

Data analysis

The data analysis was preceded by an inspection of missing values. "Not answered" categories were not included. In most instances, respondents who did not answer did so because the question was either not applicable or irrelevant in their specific case. There were also a few instances where the respondent did not answer the question because he or she did not understand it. Missing values were considered a minimal and random occurrence which supported the decision to exclude them from the analysis. Non- respondents were also excluded from descriptive statistical analyses.

Given the sample size (*n* > *50*), the sampling distributions of study variables were considered to be underlined by the central limit theorem. Parametric significance tests were employed to test the hypotheses. Using IBM SPSS Version 22, the one-sample *t-test* was used to investigate if measuring instrument values differed significantly from a set value. The *p-value* used was *alpha* = *0.05*.

Findings

Respondents' companies operate in a wide range of sectors on the JSE. Table 4 records the details: the service industry (financial and non-financial) accounted for 35% of the sample, followed by the manufacturing sector (31%) and the mining industry (12%). Fast-moving consumer goods (FMCG) (8.6%), and oil and gas (2.9%) had the smallest presence.

Table 4: Economic activities of the respondents' firms

Industry	Number	Percentage
Service	35	33.3
Manufacturing	31	29.5
Other	15	14.3
Mining	12	11.4
FMCG	9	8.6
Oil and gas	3	2.9

Ownership category

Table 5 provides an overview of the types of ownership applicable to the South African firms responding to the survey.

Table 5: Types of ownership of the firms participating in the survey

Ownership	Number	Percentage
South African public company	51	48.6
Subsidiary of a foreign multinational	26	24.8
South African-owned proprietary company	21	20.0
Other	4	3.8
South African-owned sole trade/partnership	3	2.9

Table 6: DI made by South African companies

R300 to R900 million More than R900 million			In which of the following categories does your company's international turnover fall?			How long has your company been involved in international business?			In which of the following ownership categories does your company fall?					
			Total	Less than 3 years	3–5 years	Total	South African-owned proprietary company	South African public company	South African government enterprise	Subsidiary of a foreign multinational	Other	Total		
Country	AFRICA	n	1	10	11	1	10	11	1	5		4	1	11
		%	25.0%	40.0%	37.9%	50.0%	37.0%	37.9%	25.0%	35.7%		40.0%	100.0%	37.9%
	ASIA	n	1	6	7		7	7		3		4		7
		%	25.0%	24.0%	24.1%		25.9%	24.1%		21.4%		40.0%		24.1%
	AUSTRALIA	n	2	3	5		5	5	1	1		3		5
		%	50.0%	12.0%	17.2%		18.5%	17.2%	25.0%	7.1%		30.0%		17.2%
	EUROPE	n		5	5		5	5		2		3		5
		%		20.0%	17.2%		18.5%	17.2%		14.3%		30.0%		17.2%
	MIDDLE EAST	n		1	1		1	1		1				1
		%		4.0%	3.4%		3.7%	3.4%		7.1%				3.4%
	SOUTH AMERICA	n	1	6	7		7	7	3	3		1		7
		%	25.0%	24.0%	24.1%		25.9%	24.1%	75.0%	21.4%		10.0%		24.1%
	UK/EUROPE	n		3	3		3	3	1	1		1		3
		%		12.0%	10.3%		11.1%	10.3%	25.0%	7.1%		10.0%		10.3%
	USA	n	1	8	9		9	9	2	2		4	1	9
		%	25.0%	32.0%	31.0%		33.3%	31.0%	50.0%	14.3%		40.0%	100.0%	31.0%
	Total	n	4	25	29	2	27	29	4	14		10	1	29
		%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%		100.0%	100.0%	100.0%

The South African firms participating in this survey showed strong preferences for only six geographical areas. These were the wider European Community (including the UK and Eastern Europe), North America, Asia, Africa, Australia and New Zealand, and South America. The firms that participated in the research were asked to list the countries in which they had already made FDI, and to provide the relative FDI revenues from those regions. Table 6 indicates the most popular FDI destinations for firms in the sample.

Table 6 provides an overview of the company's size, FDI turnover and the location preferred, as well as the length of time the company had been involved in FDI. Major portions of FDI made by South African companies were in Africa and the USA (38% and 31%) respectively.

Table 7 indicates the most popular destinations for FDI by South African MNEs in the sample and shows the number of firms that chose to pursue their FDI interests in each of the regions. The analysis indicates that South African firms prefer Africa, the UK and the European Community as their prime destinations. Other destinations (South America, Australia, New Zealand and Asia) are not as popular with South African firms. One possible explanation for this can be derived from the concept of psychic distance.

Table 7: Popular FDI destinations of the MNE firms in the sample

Destination	Africa	Europe/UK including Russia and Eastern Europe	North America	South America	Australia	New Zealand	Asia
Prime destination	105	35	16	11	8	1	17
Second destination	40						
Third destination	50						
Fourth destination	50						

Psychic distance findings

The findings of psychic distance factors are described by using frequency distributions which are briefly discussed under each tabulated factor. Each of the seven psychic distance factors is then subjected to a one-sample *t-test*. Subsequent to this, an aggregated score for psychic distance as a singular construct is calculated and subjected to a *one-sample t-test*.

Commercial ties

A strong commercial relationship between any two countries promotes stronger information flows between them. The commercial relationship would manifest as imports and exports of goods and services, and FDI inflows and outflows between the countries. Table 8 presents the frequencies and percentages of the perceived importance of commercial ties as a measure of psychic distance.

Table 8: Importance of commercial ties as a measure of psychic distance

Factor	Frequency	Percentage
1 Very unimportant	12	12.6
2	14	14.7
3	7	7.3
4	5	5.2
5	19	20.0
6	5	5.2
7	13	13.6
8	12	12.6
9	3	3.1
10 Very important	5	5.2

Table 8 shows the respondents' percentage distribution of importance ratings of commercial ties as a factor influencing their FDI decision making. Table 8 indicates that 38 respondents (40%) considered this factor to be unimportant; 19 respondents were neutral in their response; five (5%) deemed it to be ”very important”, and 33 respondents (35%) regarded it as “important” in FDI decision making. This suggests that respondents were more or less equally dispersed in the importance/unimportance they attached to commercial ties in their FDI decision making.

Political ties

Political ties between countries help to reduce psychic distance between those countries. Trade agreements, defence strategies and other aid programmes can create mutually agreeable ties. Table 9 indicates the perceived importance of political ties in FDI decisions by executive management.

Table 9: Importance of political ties as a measure of psychic distance

Factor	Frequency	Percentage
1 Very unimportant	15	16.0
2	11	11.7
3	8	8.5
4	12	12.7
5	22	23.5
6	4	4.2
7	12	12.7
8	5	5.3
9	3	3.0
10 Very important	2	2.1

Table 9 shows that 24 respondents (26%) considered political ties to be ”important”, while two respondents (2%) regarded such ties as ”very important”; 46 respondents (49%) considered political ties to be “unimportant/very unimportant” in FDI decisions, while 22 respondents (23%) were neutral in their response. Table 9 shows that about half (49%) of the respondents regarded political ties as unimportant/very unimportant in their FDI decision making.

Historical ties

Historical ties that acknowledge previous colonial relationships and joint participation in wars as allies also help to reduce psychic distance between countries. The relationship permits and promotes preferential trade access and exchanges of a commercial and cultural nature.

Table 10 presents the executive managements' perceived importance of historical ties in FDI decisions.

Table 10: Importance of historical ties as a measure of psychic distance

Factor	Frequency	Percentage
1 Very unimportant	24	25.8
2	18	19.4
3	13	13.9
4	6	6.4
5	14	15.0
6	6	6.4
7	10	10.7
8	2	2.1
9	0	0.0
10 Very important	0	0.0

Table 10 shows that 61 (66%) of the respondents considered historical ties to be unimportant, with 18 (19%) of the respondents regarding such ties as important. None of the respondents deemed historical ties to be very important in FDI decision making, while 14 respondents were neutral in their response.

Geographical ties

Geographical ties, a key element of psychic distance, are defined as physical, geographical distances between any two countries. If the distance is short, the commercial exchanges between countries tend to be better, because of lower transport costs, and because information transfer is easier when working days overlap significantly in real time.

Geographical proximity also reduces entry barriers otherwise posed by transportation and information processing requirement; lowers the costs of managerial coordination and control; and reduces the cost of monitoring agents' behaviour. It also promotes personal contact that is a requirement for the effective transfer of knowledge and other interpersonal skills and attitudes (Shenkar 2001). Table 11 gives the perceived importance of geographical familiarity in FDI decisions by executive management.

Table 11: Importance of geographical familiarity as a measure of psychic distance

Factor	Frequency	Percentage
1 Very unimportant	19	20.0
2	13	13.6
3	10	10.5
4	9	9.4
5	17	17.8
6	6	6.3
7	12	12.6
8	7	7.3
9	2	2.1
10 Very important	0	0.0

The responses in Table 11 indicate that geographical familiarity was not considered a particularly important factor as only 27 (28%) of the respondents selected this as important, and 51 (54%) regarded it as unimportant/very unimportant in FDI decision making. There were 17 neutral respondents and no respondents indicated important.

Social ties

Differences in language and culture affect the inflow of knowledge and therefore increase the psychic distance between countries. Differences in social and cultural factors prevent a firm from easily and fully understanding a foreign environment. Uncertainty relating to differences in culture between the home and host countries is deemed an important factor in FDI which, apart from cultural similarity, is also determined by a firm's adaptability to the social context of a host country (Luo 1999).

Foreign investment requires communication at different levels, spanning government and local competitors, and the foreign workforce. FDI therefore occurs more frequently between countries which share similar cultural and socio-economic development histories, because such similarities ease tensions in the cultural aspects of business relations. Language too plays a crucial role in helping to minimise cultural distance. Foreign businesses do recruit local people who may not speak the same language, but effective communication with head office as well as between expatriate and local (host country) employees remains crucial to a business's success.

Table 12 indicates the perceived importance of social ties in FDI decisions by executive management.

Table 12: Importance of social ties as a measure of psychic distance

Factor	Frequency	Percentage
1 Very unimportant	16	16.8
2	17	17.8
3	9	9.4
4	12	12.6
5	18	18.9
6	9	9.4
7	11	11.5
8	1	1.0
9	1	1.0
10 Very important	1	1.0

Table 12 indicates that South African firms are apparently aware of the importance of social ties as 22 (23%) of the respondents considered them to be important. However, only one respondent regarded this factor as very important. Significantly, over half of the respondents, 54 (57%) deemed social ties to be unimportant/very unimportant in FDI decision making, and there were 18 neutral responses.

Information availability

When trade information about a country is readily available, it makes it easier for managers to become quickly familiar with a potential host country. Table 13 indicates the perceived importance of trade information in FDI decisions by executive management.

Table 13: Importance of trade information stock as a measure of psychic distance

Factor	Frequency	Percentage
1 Very unimportant	9	9.3
2	6	6.2
3	6	6.2
4	5	5.2
5	22	22.3
6	11	11.4
7	17	17.7
8	15	15.6
9	4	4.1
10 Very important	1	1.0

Table 13 indicates that 26 (27%) of the respondents found trade information stock to be unimportant/very unimportant, with 47 (49%) of the respondents considering this to be an important and one respondent regarding this as a very important factor in FDI decisions. There were 22 (23%) participants who considered this to be neutral.

Level of socio-economic development of host country

The higher the level of a country's socio-economic development, the shorter is the psychic distance to all other countries, regardless of the economic development of the potential host country (Brewer 2007). This appears to be the case, because more developed countries have greater access to sources of commercial information and it is easier to conduct business in more developed economies because market conditions are easier to understand. Table 14 presents the perceived importance of socio-economic development in FDI decisions by executive management.

Table 14: Importance of socio-economic development as a measure of psychic distance

Factor	Frequency	Percentage
1 Very unimportant	3	3.1
2	1	1.0
3	1	1.0
4	2	2.0
5	7	7.2
6	12	12.5
7	15	15.6
8	30	31.3
9	14	14.6
10 Very important	11	11.5

Table 14 indicates that seven (7%) of the respondents considered socio-economic development to be unimportant/very unimportant, and seven respondents (7%) were neutral, whereas 71 respondents (75%) regarded this as important and 11 respondents (11%) deemed it to be a very important factor.

One-sample t-tests of psychic distance items

In order to gain some idea of the salience of specific psychic distance factors for senior executives of South African MNEs in their FDI decision making, each factor was sequentially subjected to a one-sample t-test. Table 15 below indicates the findings of the one-sample t-tests for each of the seven psychic distance items.

Table 15: One-sample statistics and t-tests of psychic distance items

		Mean	Std deviation	Std error mean
10.1 Commercial ties	95	4.95	2.707	.278
10.2 Political ties	94	4.40	2.420	.250
10.3 Historical ties	93	3.39	2.152	.223
10.4 Geographical familiarity	95	4.11	2.403	.247
10.5 Social ties	95	3.93	2.189	.225
10.6 Existing country information stock	96	5.42	2.325	.237
10.7 Level of socio-economic development	96	7.33	2.004	.204

	Test value = 5.5					
	t	df	Sig. (2-tailed)	Mean difference Lower Upper	95% confidence interval of the difference	
10.1 Commercial ties	-1.990	94	.050	-.553	-1.10	.00
10.2 Political ties	-4.390	93	.000	-1.096	-1.59	-.60
10.3 Historical ties	-9.468	92	.000	-2.113	-2.56	-1.67
10.4 Geographical familiarity	-5.656	94	.000	-1.395	-1.88	-.91
10.5 Social ties	-7.007	94	.000	-1.574	-2.02	-1.13
10.6 Existing country information stock	-.351	95	.726	-.083	-.55	.39
10.7 Level of socio-economic development	8.966	95	.000	1.833	1.43	2.24

Table 15 indicates that all individual psychic distance items were *significant at the 5% level or less*, with the exception of "existing country information stock" *(t = -.351, p = .726)*. However, only the level of socio-economic development *(t = 8.966, p = 000)* was significantly important in FDI decision making. All other psychic distance factors were found to be significantly unimportant in South African executives FDI decision making.

Overall psychic distance index one-sample t-test

The calculation of the psychic distance index provides some useful insights into the concept of psychic distance. A psychic distance index was constructed using an aggregated scale of the above seven items, as shown in Table 16. The *alpha coefficient for the seven items of .872* suggests that the scale had high internal consistency. The *mean scores* for variables in the aggregate psychic distance scale indicated that there are certain factors that bring countries closer. Historical ties (in the form of previous colonial ties), political ties, commercial ties, social ties, existing country information stock (within the company) and the level of socio-economic development of the intended host country all play a role in psychic distance. In many cases in the current study, these were found to be relatively unimportant in FDI decision making, presumably because of the psychic proximity of the actual (African) counties chosen for FDI by the South African executives. This index is thus regarded as providing a useful measure of information flows and the behaviour of the decision-making executives of South African MNE firms when selecting locations for FDI. The factors listed in Table 16 below operationalise psychic distance as a holistic concept. However, it is acknowledged that in addition to these factors, management characteristics (personalities of individuals, as well as their collective response to challenges and opportunities) also play a role in influencing the psychic distance, although these factors were deemed to be beyond the scope of the current paper.

Table 16: Psychic distance aggregate: Descriptive statistics

Factor	N	Minimum	Maximum	Mean	Std deviation
Commercial ties	95	1	10	4.95	2.707
Political ties	94	1	10	4.40	2.420
Historical ties	93	1	8	3.39	2.152
Geographical familiarity	95	1	9	4.11	2.403
Social ties	95	1	10	3.93	2.189
Existing country information stock	96	1	10	5.42	2.325
Level of socio-economic development	96	1	10	7.33	2.004

	N	Minimum	Maximum	Sum	Mean	Std deviation
Aggregate score	93	7	56	3108	33.42	12.213

Table 16 shows that most factors, with the notable exception of level of socio-economic development, that constitute the psychic distance aggregate scale obtained *means* suggesting that they were deemed to be relatively unimportant by respondents in the FDI decision-making process.

Table 17 presents a one-sample *t-test* of the aggregated psychic distance measuring instrument.

Table 17: One-sample t-test of psychic distance aggregate scale

One-sample statistics				
	N	Mean	Std deviation	Std error mean
10. Psychic distance	93	4.7742	1.74472	.18092

One-sample test

	Test value = 5.5					
	t	Df	Sig. (2-tailed)	Mean difference	95% confidence interval of the difference	
					Lower	Upper
10. Psychic distance	-4.012	92	.000	-.72581	-1.0851	-.3665

Table 17 indicates that the psychic distance *aggregate scale was significant* (t = -4.012, p = .000). However, the findings also suggest that psychic distance as an aggregated concept was relatively unimportant in the respondents' FDI decision making.

Consumer factor findings

Conceptually, closely related to psychic distance are economic, behavioural, attitudinal and cultural factors of foreign consumers as these can be proximate or distant in constitution.

(i) Characteristics of the consumers in the foreign market

As products mature and competition intensifies, firms have to seek new markets which have not been previously served. The process of identifying locations and consumers that are similar with regard to key traits (such as product-related needs and wants) should be performed at country and consumer levels. This form of segmentation, referred to as micro-segmentation, uses the consumer characteristics in the potential market such as age, occupation, education, income, ethnicity, race, lifecycle stage, social class and degree of urbanisation as factors that merit consideration by the firm before entering a potential market. In addition, psychographic factors such as lifestyles, values, attitudes, interests and consumer opinions are also important factors. Six consumer factors were identified and used in the current study to determine their importance for South African executives in their FDI decisions. These are dealt with sequentially in the following subsections.

(ii) Per capita income of the consumers

Social and economic forces have increased the disposable incomes of consumers worldwide, leading to more sophisticated lifestyles and needs, and globalisation has had a significant impact on consumer behaviour and habits. In order to remain in business, firms have to provide products and services that satisfy consumer needs. Consumers' per capita income, which is an important measure of the expected growth of a country, provides firms with information on a location's potential. Table 18 summarises the respondents' perceptions of the importance of the per capita income of the consumers.

Table 18: Importance of consumer per capita income as a factor supporting FDI

Factor	Frequency	Percentage
1 Very unimportant	1	1.3
2	4	5.3
3	2	2.7
4	2	2.7
5	11	14.7
6	9	12.0
7	11	14.7
8	21	28.0
9	8	10.7
10 Very important	6	8.0

Table 18 indicates that 12% (9 respondents) considered this to be unimportant, while 65% (49 respondents) regarded it as important when conducting research prior to FDI. Only six respondents considered this to be a very important factor and 15% (11 respondents) were neutral in their response.

(iii) Purchasing power of consumers

The purchasing power of consumers is the converse of per capita income as it also indicates the strength of the economy and the perceptions of businesses and individuals of the economy's future. A higher real income means a higher purchasing power. If the economy expands and consumer confidence rises as a result, consumers usually make more purchases and/or purchases of items of greater cost. Table 19 provides an overview of the South African firms' perceptions of the importance of the consumers' purchasing power when making FDI decisions.

Table 19: Purchasing power of the consumers as a factor in FDI decision making

Factor	Frequency	Percentage
1 Very unimportant	1	1.3
2	3	3.9
3	2	2.6
4	3	3.9
5	8	10.5
6	6	7.9
7	15	19.7
8	17	22.4
9	14	18.4
10 Very important	7	9.2

Table 19 indicates that 12% of the respondents (9 individuals) considered this to be unimportant, whereas 68% (52 individuals) deemed it to be important, with 9% (7 respondents) regarding it as very important and 11% (8 individuals) responding neutrally.

(iv) Consumer lifestyle

The concept of consumer lifestyle segmentation is different from that of personality. Consumer lifestyle relates to the economic level at which people live, how they spend their money and how they spend their time (Kucukemiroglu 1997). Lifestyle segmentation help firms measure potential consumer activities in terms of

- how they spend their time
- what their interests are
- their views about themselves and the world
- their demographic characteristics (Anderson & Golden 1984)

Assessment of lifestyle patterns or psychographic patterns provides firms with a three-dimensional view of consumers, thus assisting them to understand their customers and plan an entry strategy (Kucukemiroglu 1997). Table 20 provides a frequency distribution of the views of the respondents regarding the importance of consumer lifestyle as a factor that affects FDI.

Table 20: Consumer lifestyle as a factor considered prior to FDI

Factor	Frequency	Percentage
1 Very unimportant	2	2.7
2	3	4.0
3	4	5.3
4	2	2.7
5	15	20.0
6	7	9.3
7	18	24.0
8	15	20.0
9	7	9.3
10 Very important	2	2.7

Table 20 shows that 15% (11 respondents) considered this to be unimportant, 63% (47 respondents) regarded this factor as important and 2.7% (2 respondents) deemed it to be very important, while 20% (15 individuals) responded neutrally.

(v) Consumer preferences and level of literacy and education

Education levels often define market segments and allow firms to develop products for specific consumers with particular preferences by virtue of their educational attainment. Table 21 provides an overview of the respondents' perceptions of the importance of educational attainment in FDI, and Table 22 the importance of consumer preferences when planning to enter a new location.

Table 21: Level of education as a factor considered prior to FDI

Factor	Frequency	Percentage
1 Very unimportant	2	2.7
2	7	9.5
3	8	10.8
4	7	9.5
5	18	24.3
6	5	6.8
7	9	12.2
8	11	14.9
9	3	4.1
10 Very important	4	5.4

Table 21 indicates that 32% (24 respondents) considered level of education to be unimportant; there was a 24% neutral response (18 individuals); 38% (28 individuals) regarded this factor as important; and 6% (4 respondents) deemed it to be very important.

Table 22: Consumer preferences as a factor considered prior to FDI

Factor	Frequency	Percentage
1 Very unimportant	2	2.7
2	1	1.3
3	3	4.0
4	2	2.7
5	14	18.7
6	7	9.3
7	16	21.3
8	16	21.3
9	9	12.0
10 Very important	5	6.7

Table 22 indicates that 11% (8 respondents) considered consumer preferences to be unimportant, 64% (48 respondents) regarded this as important and 6.7% (5 respondents) as very important. Fourteen respondents were neutral (19%).

(vi) Cultural values

Cultural values drive consumer choices. Cultural values are dynamic and originate from the ethnic and social groupings to which people belong. Cultural values affect consumers' consumption behaviour as groups and as individuals in the marketplace. It is therefore reasonable that firms analyse cultural values as part of their entry strategy into a new location (Tse, Wong & Tau 1988). Table 23 summarises the views of the respondents with regard to this factor.

Table 23: Cultural values as a factor

Factor	Frequency	Percentage
1 Very unimportant	16	21.9
2	7	9.6
3	6	8.2
4	4	5.5
5	16	21.9
6	5	6.8
7	11	15.1
8	5	6.8
9	2	2.7
10 Very important	1	1.4

Table 23 indicates that 45% of the respondents (33 individuals) considered cultural values to be unimportant, 32% (23 individuals) felt they were important and 1% (1 individual) deemed them to be very important. A total of 22% (16 individuals) responded neutrally.

(vii) Descriptive statistics and one-sample t-tests of consumer index items

Table 24 below provides descriptive statistics for consumer characteristics as a factor in FDI decision making.

Table 24: Mean and standard deviation of consumer characteristics

Consumer characteristics	Mean	Std deviation
Per capita income of consumers in the foreign market	6.79	2.152
Purchasing power of consumers in the foreign market	7.08	2.140
Lifestyles of consumers in the foreign market	6.32	2.087
Consumer preferences in the foreign market	6.72	2.070
Level of literacy and education of consumers in the foreign market	5.49	2.354
Cultural values, beliefs, attitudes and traditions of consumers in the foreign market.	4.37	2.552

Table 25 below presents the findings of one-sample t-tests of consumer characteristics' items.

Table 25: One-sample t-tests of consumer characteristics' items

	N	Mean	Std deviation	Std error mean
11.1 Per capital income of consumers in the foreign market	75	6.79	2.152	.248
11.2 Purchasing power of consumers in the foreign market	76	7.08	2.140	.245
11.3 Lifestyles of consumers in the foreign market	75	6.32	2.087	.241
11.4 Consumer preferences in the foreign market	75	6.72	2.070	.239
11.5 Level of literacy and education of consumers in the foreign market	74	5.49	2.354	.274
11.6 Cultural values, beliefs, attitudes and traditions of consumers in the foreign market	73	4.37	2.552	.299

Table 25 (continued)

	Test value = 5.5					
					95% confidence interval of the difference	
	T	Df	Sig. (2-tailed)	Mean difference	Lower	Upper
11.1 Per capital income of consumers in the foreign market	5.179	74	.000	1.287	.79	1.78
11.2 Purchasing power of consumers in the foreign market	6.432	75	.000	1.579	1.09	2.07
11.3 Lifestyles of consumers in the foreign market	3.403	74	.001	.820	.34	1.30
11.4 Consumer preferences in the foreign market	5.104	74	.000	1.220	.74	1.70
11.5 Level of literacy and education of consumers in the foreign market	-.049	73	.961	-.014	-.56	.53
11.6 Cultural values, beliefs, attitudes and traditions of consumers in the foreign market	-3.783	72	.000	-1.130	-1.73	-.53

The one-ample *t-tests* of consumer characteristics indicate that per capita income, purchasing power, lifestyles and consumer preferences were significant at the 1% level, and the earlier frequency distributions of responses indicated that these factors were considered the most important determinants for managers when considering FDI, and not the education levels and the cultural values of the consumers.

(viii) Consumer index

A consumer index was created using the six consumer characteristics defined above. The *alpha coefficient for the scale was 0.874*. Table 26 presents the descriptive statistics of the consumer index.

Table 26: Descriptive statistics of the consumer index

Score	N	Minimum	Maximum	Sum	Mean	Std deviation
Agg score	73	6	56	2666	36.52	10.500

Table 26 indicates that the standard deviation was 10.5, the mean for the scale 36.52 and the variance 110.253.

Table 27 shows the one-sample t-test for the consumer index.

Table 27: One-sample t-test for the consumer index

	N	Mean	Std deviation	Std error mean
11. Consumer characteristics	73	6.0868	1.75002	.20482

One-sample t-test

	Test value = 5.5					
					95% confidence interval of the difference	
	t	df	Sig. (2-tailed)	Mean difference	Lower	Upper
11. Consumer characteristics	2.865	72	.005	.58676	.1784	.9951

Table 27 indicates that, on average, respondents rated consumer characteristics as important (M = 6.08; SD = 1.75002; p = 0.005) in their FDI decision making.

Executive biographical factor findings

The personal characteristics of a firm's management team have been shown to influence perceptions of psychic distance and marketing strategy. Management's background and personal experiences impact on preferences and the way in which decisions are made (Kale 1991). Martenson (1987) found that management's experiences of specific cultural differences influence the firm's marketing strategy. He also found that when management has had direct experience in a foreign market this has important implications for reducing the psychic distance between the home and host markets (Evans et al. 2000).

Having undertaken business trips to a specific part of the world lessens psychic distance, whereas when management did not have direct experience of a host market, it was seen to be psychically further away (O'Grady & Lane 1996).

(i) Foreign work experience

The respondents in the current study were required to indicate whether they had lived and worked abroad. Table 28 below indicates the frequency of particular responses.

Table 28: Management's foreign work experience

	Frequency	Percent
Yes	80	83
No	16	17
Total	96	100

All of the respondents indicated they had made regular business trips abroad.

(ii) Management's international transaction experience

A study by Lai, Chen and Chang (2012) found that a board of directors' prior experience can improve the quality of FDI decisions and the firm's FDI performance overall because of the directors' heterogeneous knowledge domain. Under such circumstances it seems an obvious statement that the quality of decisions being made is better when members of the board directors have already experienced similar situations, and are able to give first-hand advice and counsel to managers on strategy formulation and implementation.

Conversely, a study by London and Hart (2004) found that the pre-existing biases of directors about the prospects of local economic development could be a constraint for firms entering certain low-income markets. Table 29 provides an overview of the number of respondents who acknowledged having experience in conducting international transactions. The respondents had to give a positive or negative answer on their prior experience in the field of FDI. A total of 92% percent indicated that they had prior experience in FDI transactions; 4% did not have prior experience; and 4% chose not to respond to this question.

Table 29: Prior experience

	Frequency	Percent
Yes	92	96
No	4	4
Total	96	100

(iii) Executive management's aggregate biographical index

An aggregated behavioural index for the behavioural aspects of management was created to assess the importance of foreign work experience and prior experience in international transactions. Table 30 shows the results.

Table 30: Descriptive statistics of executive management's biographical index

Score	N	Minimum	Maximum	Sum	Mean	Std deviation
Aggregate score	96	1	3	268	2.79	.501

The *KR 20 was .420*, for the scale. The *mean for the scale was 2.79*, (where: don't know/undecided = 0, no = 2 and yes = 3), *the variance .251*, and the *standard deviation .501*. The high mean score for the index indicates that the behavioural aspects of management are deemed important in FDI decision making. This is perhaps unsurprising as it is the managers of the firms themselves (the human personalities) and not the firm (the juristic person per se) who make the actual decisions.

Results and conclusion

Discussion of the results in relation to the hypotheses

- **H1n** Perceptions of psychic distance by senior executives of South African MNEs are neither important nor unimportant in FDI decisions. ***The null hypothesis was not supported*** by the available evidence and the ***alternate hypothesis that psychic distance factors are unimportant in FDI decisions was therefore accepted.***
- **H2n** Perceptions of consumer factors by executives of South African MNEs are neither important nor unimportant in FDI decisions. ***The null hypothesis was not supported*** by the evidence and the ***alternate hypothesis that consumer factors are important in FDI decisions was therefore accepted.***
- **H3n**. South African executive biographical factors are neither important nor unimportant in FDI decisions. ***The null hypothesis was not supported by the available evidence*** and ***the alternate hypothesis that executive behavioural factors are important in FDI decisions was therefore accepted.***

Discussion of results and conclusion

The findings indicate that management experience and background (FDI experience and biographical index) influence South African firms' FDI location, and that location choice is not significantly influenced by psychic distance factors. South African multinationals are familiar with the African business context, and would therefore tend to regard psychic distance as unimportant when their FDI focus is largely in that continent. In fact the findings indicate that socio-economic development is the only psychic distance factor regarded as a significantly important in the FDI decision-making process.

The findings also indicate that consumer index factors such as per capita incomes, lifestyles and consumer preferences in a foreign market were found to be *significantly important* in executives' FDI decisions. However, cultural beliefs, attitudes and traditions of consumers in a foreign market were found to be *significantly unimportant* factors in executives' FDI decisions.

Interestingly, the levels of literacy and education of consumers in the FDI focus country were considered neither important nor unimportant in respondents' FDI decisions, but this tended to vary in accordance with the line of business. Again, not unexpectedly, management's background and experience were found to be important factors influencing FDI location choice by South African MNE executives. Management's direct experience of a specific market, frequent specific foreign business trips and international business transactional experience were all found to be important factors influencing location choice by South African executives. The finding that South African FDI location choice was influenced by prior experience of a specific country and market corroborates the findings indicating that psychic distance factors were *significantly unimportant* in FDI decision making for this particular sample of senior management. However, the finding of the perceived unimportance of psychic distance factors in the context of the current study does not mean that these factors might not be salient in FDI decision-making processes in other contexts. The fact that psychic distance was found to be an unimportant in FDI decisions for South African executives was largely because most FDI was made in Africa by these executives, where psychic distance factors could be expected to be slight. The fact that the study found no evidence that cultural differences affected FDI location decision is consistent with findings in the literature, again for much the same "familiarity with context" reason. For example, O'Grady and Lane (1996) indicate that South African firms are familiar with Africa and do not feel a strong sense of cultural difference.

The limitations of the study include the small size of the sample and the fact that it was not randomly selected. However, the fact that the study focused on senior executives of multinational organisations operating in South Africa unavoidably meant the sample would tend to be small and purposively selected. Despite this, the respondents were regarded as being representative of South African senior management's attitudes towards FDI at the current time. The findings also clearly showed the main factors South African senior MNE executives consider in making FDI decisions.

The practical outcomes of the study include offering senior executives a ”smorgasbord” of factors that should be taken into consideration when making FDI decisions and their relative importance in making such decisions.

Finally, although the importance and priority of specific factors in the FDI decision-making equation will change from context to context, the study was able to show fundamental aspects of this process. Future research could apply the measuring instruments used in the current study to investigate their effectiveness in determining senior management's FDI decision-making rationale in MNEs operating in different national locations.

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