NASCENT TRANSNATIONAL CORPORATIONS FROM *RISING* AFRICA: INITIAL INSIGHTS AND FUTURE RESEARCH ISSUES

- Kevin Ibeh

ABSTRACT

This paper offers a summary of initial insights on the FDI behaviour of nascent TNCs from one of the 'rising' African countries, Nigeria. It suggests the growing importance of the study firms – eight leading players from the Nigerian banking sector - as key players in African economies and potentially global markets. Case evidence indicates that these firms' FDI activities have largely taken the form of wholly owned and majority stake operations and that they have altogether entered nearly sixty countries, mostly during the 2006-2008 period. A preponderance of these markets are within Africa, but there have also been FDI activities in the UK, France, USA, and Cayman Islands, with planned investments in China, Dubai etc. Among the firm-specific advantages that appeared to have facilitated these TNCs' FDI activities are strong financial resource base, commitment to world class service standards, and entrepreneurial management. Their observed ability to leverage resources, including knowledge assets, from strategic partners also seemed important. Evidence further points to a prevalence of market seeking motivations among these TNCs, with relationship seeking, brand building, and 'prestige' motives also observed as salient. The managerial and future research issues raised are discussed in the paper.

Contact Details:
Prof. Kevin Ibeh, Department of Marketing, University of Strathclyde, Glasgow, G4 0RQ, UK.
Email: k.i.n.ibeh@strath.ac.uk

INTRODUCTION

The latest World Investment Report indicates that Foreign Direct Investment (FDI) outflows from Africa reached a record $8bn in 2006, nearly quadrupling the figures for 2005. Outward Foreign Direct Investment (OFDI) stock from Africa also reportedly doubled in five years, from just under thirty billion US dollars ($29.3bn) in 2001 to over sixty billion US dollars ($60bn) in 2006. The report further identifies eleven African Transnational Corporations (TNCs) - ten from South Africa plus Orascom of Egypt - among the top 100 non-financial TNCs from developing countries, and notes that African TNCs contributed 31 of the estimated 442 green-field investments in the region in 2006 (UNCTAD, 2007). Although the above OFDI figures are low relative to global OFDI or even South-South OFDI flows, they suggest, nevertheless, that African companies are beginning to join their counterparts from other regions in pursuing their growth ambitions through investments in regional and global markets. A significant majority of these African TNCs originate from South Africa, but as the report also highlights, other African countries, specifically Morocco, Liberia, Nigeria, Egypt and Libya, reported their highest levels of outflows in 2006 (UNCTAD, 2007). It would appear, therefore, that new TNCs are emerging from a small but increasing number of African countries.

Recent research on TNCs from emerging markets, or the South-North / South-South FDI flows, has understandably focused on the BRIC (Brazil, Russia, India, and China) economies (Goldman Sachs, 2003). African TNCs, particularly those originating from outside South Africa and North Africa, have attracted little or no research attention, apparently because their OFDI activities are of a much lower scale and profile and a more recent pedigree. Greater understanding of the activities of African TNCs is, however, important for a number of reasons. First, Africa's status as the laggard of the world economy requires that important positive trends such as the emergence of new TNCs from the region be understood and encouraged. This is particularly crucial given the prospect that other African companies might, as suggested by emulation or follow-the-leader notion of international business expansion, imitate these putative 'role models' in going into the world markets (Westwood and Kirkbride, 1998). Such increased participation - direct and indirect - of African firms in the global economy may facilitate the achievement of the *Millennium Development Goal* of eradicating extreme poverty and hunger. This is consistent with the balance of empirical evidence on the impact of FDI activity on home and host economies (e.g. Driffield, 2008). Studying emerging African TNCs could also provide policy makers and supranational organisations with a better understanding of their behaviour, including how they might be appropriately supported to deliver meaningful benefits to their home and host economies.

The aim of this *research* is to provide preliminary insights into the OFDI behaviour of TNCs from parts of Africa not normally associated such activity, hereinafter referred to as *rising* Africa [1]. The idea is to improve awareness of these nascent TNCs with a view to setting an agenda for future appropriate research. In more specific terms, this paper seeks to identify those companies from *rising* Africa that are making significant direct investments outside their home countries; understand their main motivations and FDI patterns; as well as their key strengths, internal and external. The study also highlights some future research issues.

METHODOLOGY

A multi-case research approach was employed (Miles and Hubermann, 1994; Yin, 2003). This is justified based on the severely limited extant knowledge on the FDI behaviour of African countries. The following incremental steps were implemented to ensure good case research protocols and minimise associated weaknesses.

First, the study context was delineated as Nigeria, which, as mentioned earlier, is among the five African countries outside of the traditionally prosperous South Africa that recorded their highest levels of OFDI in 2006 (UNCTAD, 2007). Second, the study population was defined as comprising leading players from the fastest expanding sectors of the Nigerian economy (Wallis, 2008), with FDI activities in at least two country markets. The banking sector, for example, accounts for 17 of the top 20 companies by turnover in the Nigerian Stock Exchange and is currently the fastest growing in Africa. Also, five Nigerian banks were ranked among the 500 most capitalised banks in the world in 2008 by the Banker Magazine, a subsidiary of the Financial Times; another three made the top 1000 list (Agborh, 2008; Elueme, 2008). The focus on leading players with FDI outlay in at least two markets outside their home country is consistent with the IB literature. Though not without limitations, this operational definition of TNCs is deemed sufficient for the exploratory nature of the present study [2]. Third, secondary and online data from multiple sources, including reports from the Central Bank of Nigeria, companies and business press, were examined for relevant insights on the case firms. In the course of this data generation exercise, visits were paid by this researcher to the Abuja headquarters of the Central Bank of Nigeria and the Nigeria Communications Commission, and a number of banks, notably Zenith Nigeria Plc, Ecobank Nigeria Plc and Union Bank of Nigeria Plc. These visits yielded helpful interviews with key informants as well as access to relevant published data.

SUMMARY OF FINDINGS, CONCLUSIONS AND IMPLICATIONS

This study reports on the tentative steps of nascent African TNCs in the international investment arena and suggests their growing importance as meaningful actors in African economies and potentially in global markets. The examined cases include eight leading players from the Nigerian banking and financial services sector, namely in alphabetical order, Access Bank Plc, Ecobank Transnational Incorporated, First Bank of Nigeria Plc, Guaranty Trust Bank Plc, Intercontinental Bank Plc, Union Bank of Nigeria Plc, United Bank for Africa Plc, and Zenith Bank Plc. Further details on these focal companies' demographics are available on request from the author.

Case study data suggests that these TNCs have largely employed higher control modes – wholly owned and majority stake acquisitions – in their FDI activities and have, between themselves, entered nearly sixty country markets, or an average of seven countries each. A majority of these new foreign market moves were made during the 2006-2008 period, following the recapitalisation and consolidation of the Nigerian banking sector driven by the Central Banking authorities. Also, whilst a preponderance of these new market entries were within the African region, there have been several cases of expansion to the UK, France, USA, and Cayman Islands, with more planned entries to China, Dubai and so on. The investigated TNCs are also increasingly able to source money from the international capital market, with one or more already registered as members of the London Stock Exchange. Among the differential or ownership specific advantages that appeared to have facilitated the study firms' FDI activities are strong financial resource and asset base, commitment to world class service standards, and entrepreneurial management to mention a few. Also seemingly important is the observed ability of the firms to leverage resources and capabilities embedded in strategic external partners, including financial investments, best practice knowledge, invaluable advisory services, strategic management capacity, world class technology, and international business networks. Case study evidence also suggested a strong prevalence of market seeking motivations among all the firms studied, expressed not only in their committed push to geographically close and demand-similar African markets, but also the forays to key global financial centres of London, New York and Paris. Relationship seeking motives were also observed, notably in the expansion into the latter (global) markets, with brand building, strategic presence or prestige-seeking motivations emerging as sub-themes.

The foregoing summary findings are clearly tentative, particularly given the present study's near-total reliance on secondary sources. They, nevertheless, raise a number of important issues, which are subsequently discussed.

First, the overall level of FDI activity observed among these firms, including the number of markets entered, suggests that they are beginning to join their counterparts from other emerging economies and beyond in pursuing their growth ambitions through direct investments in regional and global markets. Whilst the absolute size and impact of the study firms' investment outlay may compare badly with the profile and significance of the recent widely publicised FDI moves by China's Lenovo or India's Tata for example [3], the strategic intent demonstrated bodes well for the future. Interestingly, these firms are not government backed and have not benefited from 'sovereign wealth funds' (Akande, 2007), as had some of their counterparts from other emerging markets. Also, the fact that a majority of the observed FDI activity occurred since 2006 also suggests momentum, which coupled with the upward trajectory of the investigated firms in global and regional rankings and their enhanced attractiveness to major global investors, indicate brightening prospects for further international expansion. This is particularly welcome given the urgent challenge of mobilising the Africa's private sector to significantly boost its contribution toward meeting the Millennium Development Goals of minimising extreme poverty and hunger by 2015.

Second, the observed distribution of foreign markets already entered or planned by the study firms suggests the preponderant pursuit of a regionalisation programme, but also global market aspirations expressed through strategic investments in key global financial centres. This raises the question of whether these nascent African TNCs should essentially focus on regional markets, and not bother with global markets. This paper views the former perspective as intuitively sensible at this nascent stage of the study firms' development, as it reflects both the demand similarity model (Linder 1964) and the psychic distance notion of firm internationalisation (Johanson and Vahlne, 1977). It is also consistent with the conclusion of a recently released UNCTAD investment strategy for Nigeria, about the need for growth seeking companies to target regional market opportunities, and use this as a learning platform for future expansion into major global markets (UNCTAD, 2008). That said, strategic presence in key markets would be adviseable at any point if effectively deployed as a conduit for acquiring strategic assets, including technology/knowledge, brand equity, and key relationships (Ibeh, Young and Lin, 2004).

Third, the finding that the investigated firms' FDI activities are mainly motivated by market- and relationship seeking factors partly reflects the nature of the industry, but also the strategic vision of the study firms and the Nigerian Central Banking authorities. A major aim of the reforms masterminded by the latter was to provide the study firms' with a significantly improved resource base, to enable them benchmark themselves against and compete with their counterparts around the world. Having thus enhanced their resource base, these firms appeared to have gone searching for new markets and new relationships – with customers, strategic partners, investors, and so on.

Fourth, the observed salience of prestige-seeking or brand development motivations arguably reflects the study firms' focus on remaining ahead of, or at least keeping up with, their domestic competitors, by undertaking FDI, which is increasingly viewed as an industry standard. Whilst this raises the issue of the extent to which these FDI activities are merely 'white elephant' prestige projects not underpinned by any real strategic vision or business case, it also highlights the more significant point about the positive effects of domestic competitive rivalry on FDI behaviour. Consistent with the pattern seen elsewhere and expressed in the emulation principle of international business expansion, it is expected that the activities of these nascent TNCs may inspire and challenge other local players to embrace the international path to significant growth and to develop those critical firm-specific and relational advantages that they need to become foreign direct investors.

Fifth, the finding that the study TNCs benefited from several advantage-generating factors, including strong and improving financial base, best practice knowledge and access to key strategic partners, reflects the balance of previous relevant research evidence. Further refinement and continuous renewal of these and more sources of competitive advantage would be needed to improve the future prospects of Africa's nascent TNCs, and enhance their chances of growing into more impactful global players like their BRIC counterparts.

It is worth sounding a cautionary note at this stage in relation to the prospects of the identified TNCs and the the policy reforms that spawned them. This seems sensible in view of previous false dawns in Africa, and concerns being expressed in some quarters regarding the readiness of Nigerian authorities to sustain and deepen the policy reforms that have, at least in part, facilitated the FDI activites discussed in the present paper. This suspected fragility was a sub-theme in a recent FT special report mentioned earlier in this paper. Another aspect to be monitored is the extent of actual business activity and the nature of the outcomes emanating from the foreign subsdiaries and affiliates reported by the study firms [4]. This is important given the temptation for companies to exaggerate their FDI moves for promotional purposes.

As indicated elsewhere in this paper, the present effort represents an initial attempt to gain some understanding of the recent OFDI activities of emerging actors in parts of Africa not normally associated with such activity. Not unexpectedly, this paper has raised more questions than it has answered, thus highlighting the urgent need for concerted research attention to this topic area. The challenge takes at least two forms: expanding the breadth of research questions and improving the depth of coverage. Regarding depth of coverage, the near exclusive reliance on secondary sources in this exploratory study suggests the need for a complementary empirical research effort to more fully address the key questions raised in this current study. More clearly stated, empirically based answers are still needed in regard to issues, including the internationalisation process and expansion pattern of emerging TNCs from rising Africa; their key sources of competitive advanatge; the dominant motivations for their FDI activities; and their future intentions and prospects.

Greater breadth can be achieved by identifying other TNCs within *rising* Africa and subjecting them to appropriate analysis similar to the attempt made in this paper. There is also the need to broaden research in this area to address issues such as how African TNCs manage their affiliates and subsidiaries and how they compare with their counterparts from South Africa, the BRIC economies, and others. This might assist in identifying lessons that nascent African TNCs might learn from their counterparts from other emerging economies and beyond. The question of the role of government and sovereign wealth funds in the emergence and performance of these TNCs requires systematic examination, so is the matter of the impact of the activities of these TNCs on their home and host countries. Attention should sooner than later be paid to developing rankings, at perhaps country or regional levels, for these TNCs, and calcuating transnationality index for African TNCs.

NOTES

[1] The phrase ‘rising Africa’ is inspired by the “Africa Rising” international music and fashion festival master-minded by the This Day Media Group of Nigeria. The programmes, headlined by global starts of African descent in Abuja, Lagos, and Washington DC, have an underlying theme of Africa’s awakening and the criticality of international partnerships and networks in bringing about the *imperative* change.

[2] A transnational corporation (TNC) is generally regarded as an enterprise comprising entities in more than one country which operate under a system of decision-making that permits coherent policies and a common strategy. The entities are so linked, by ownership or otherwise, that one or more of them may be able to exercise a significant influence over the others and, in particular, to share knowledge, resources and responsibilities with the others (UNCTAD, 2008).

[3] Green (2008), for example, noted that ‘for all their global ambitions, the combined capital base of Nigeria’s 25 banks is still only about the size of the smallest of South Africa’s big four’.

[4] One of the focal firms, the UBA, for example was fined US$15m by US regulators in April 2008 for falling foul of the country’s anti-money laundering laws in their New York branch.

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