

# The effect of colonial legacies on Africa's inward FDI: the Case of UK FDI in Ghana

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## **It is not what you think! The effect of colonial legacies on Africa's inward FDI: the Case of UK FDI in Ghana**

### **Abstract**

**Purpose** – This paper examines the role colonial ties play in attracting Foreign Direct Investment (FDI) using Ghana as a case study. Colonisation left behind legacies of institutional framework, social ties and remnants of companies of colonial masters which could potentially offer contemporary businesses from home countries the benefits of country of origin agglomeration.

**Design/methodology/approach** – This paper uses sequential explanatory mixed research design through 101 questionnaires and eight interviews from UK companies with FDI in Ghana.

**Findings** – Colonial ties have limited influence on contemporary flow of FDI to Ghana. Majority of UK companies are influenced by agglomeration opportunities in general rather than country of origin agglomeration.

**Research limitations/implications** – The sample was taken from the non-extractive industry in Ghana and caution must be applied in generalising the findings. However, some universal issues concerning agglomeration and institutions have been discussed.

**Originality/value** – Although there has been some research on colonial history and its impact on FDI in Africa, existing knowledge on bilateral relations is rather limited. Unlike previous studies, this research provides depth by examining colonial influence on FDI between two countries, using two key concepts: country of origin agglomeration and institutions. It provides UK companies with contemporary views to consider when exploring FDI opportunities in Ghana, particularly in relation to the effects of the colonial history.

**Keywords** - FDI determinants, Africa, Ghana, UK companies, FDI motives, Institutions, Agglomeration, bilateral trade, colonial legacies, country of origin

**Paper type** - Research paper

## 1. Introduction

The scramble for African countries in the early part of the century as colonies by European countries is extensively documented (Ayres, 2012), and references continue to be made to the phenomenon in academic and practitioner publications. Contemporary international business literature has attempted to explain the legacies of colonisation in some African countries. Broadly, the streams covered, though not in great detail, include the role of multinational companies (MNCs) in the preservation of the colonial agenda in the continent (Adams, et al., 2018), return on investment during the colonial era (Buelens and Marysse, 2009), internationalisation strategies in colonies (Sluyterman and Bouwens, 2015), the economic legacies of colonisation (Wietzke, 2015; Jones, 2013) and development of institutions (Adams, et al., 218; Bennett, et al., 2017; Sluyterman and Bouwens, 2015; Buelens and Marysse, 2009). Whilst these pieces of research have been essential, there is scope for further studies. This is because, though most of the countries have been colonies at one point or another, and visible colonial legacies remain in Africa, existing research does not capture all African countries and their existing relationships with former colonial masters, and how such relationships impact on Foreign Direct Investment (FDI). For instance, many businesses of colonial origin stayed behind in the colonised countries after independence, and forged close links with political leaders, creating legitimacy in the host countries (Decker, 2010; 2008; Milhomme, 2004). The question that remains to be answered is the extent to which such remnants of companies and past relationships contribute to the flow of FDI, many years after colonisation was formally ended. It is legitimate to ask this question because social and political motives of FDI are to participate or control interests in host economies and to strengthen colonial and friendship ties (Bankole and Adewuyi, 2013). We answer this question by examining two main concepts, country of origin agglomeration and institutions from the perspective of UK (coloniser) companies with FDI in Ghana (colony).

This research makes unique contribution to literature in two different ways. First, it adds a different dimension to the body of literature revisiting and monitoring trade between former colonisers and colonies (e.g. Adams, et al., 2018; Bennett, et al., 2017; Sluyterman and Bouwens, 2015; Jones, 2013; Makino and Tsang, 2011; Head, *et al.*, 2010; Buelens and Marysse, 2009; Austin and Uche, 2007; Beraho, 2007; Milhomme, 2004). We uniquely examine the role of country of origin agglomeration (pull effect of existing UK companies in Ghana) and institution factors (similarity of formal and informal rules in the host country due to past colonial ties) (White III, et al, 2015) to understand the extent to which they are relevant to UK FDI in Ghana. Second, this research is timely because studies have just begun on UK's business relationship with Africa post-Brexit referendum (e.g. Mold, 2018). The UK Prime Minister, Theresa May's first visit to Africa, together with senior ministers and trade delegations, was seen as an opportunity to explore mutually beneficial work and investment between Africa and the UK (Gov.uk, 2018). This research highlights some key issues UK companies should consider when exploring the opportunities in Africa, and how the colonial past helps or hinders FDI opportunities, using Ghana as a case study.

Prior research has shown that colonisation introduced laws, educational systems, tax systems and bureaucracies of the home country which became deep-rooted in the colonies (Amakwah-Amoah, 2016; Boussebaa and Morgan, 2014). The impact of these laws and ideologies contribute as pull factors, which potentially attract FDI (Makino and Tsang 2011; Frankel and Rose, 2002). This research therefore aims to answer two key questions:

1. In what ways are UK companies currently based in Ghana, which include remnants of companies from the colonial period, influenced by the existence of other UK companies in the country (country of origin agglomeration)?
2. To what extent are the colonial ideologies, laws and resulting institutional factors pulling factors for multinational UK companies to invest in Ghana, as they influence the choice of their products and services?

The answer to these questions will fill an important research gap as well as provide useful information for FDI investors from former colonisers intending to invest in former colonies.

The rest of the paper is structured as follows: the next section presents the literature review and development of hypotheses, with focus on Ghana as a trading partner and former British colony. It highlights the colonisation influences and legacies in the country. This is followed by analysis of literature concerning FDI inflows into Africa and effects of colonisation. The section concludes with the development of the hypotheses, followed by a description of the research design used for the study. This is followed by concluding the foregoing arguments regarding the impact of colonisation as a pull factor for FDI into Africa, with Ghana as a case study. Finally the limitations of the study and recommendations for further research have also been presented.

## 2. Literature Review and the development of the hypotheses

Ghana was a British colony until 1957 when it became the first African country to attain independence (Adu, 2013; Jones, 2013; Mmieh, *et al.*, 2012). Ghanaians are surrounded by colonial influences and imagery to remind them of their past relationship as a colony of the UK. These influences include the English language adopted as the national language, and images of the red colour in their flag, which signifies the blood Ghanaians shed in their struggle to gain independence, and also the image of the Black Star in the middle of the flag, which stands for total emancipation of the African continent (Ndzibah, 2010). The historical relationship with the UK has provided many positive legacies, which can be nurtured as common grounds between the two countries to further attract FDI, such as the Commonwealth, the English language, the educational and the legal systems. However, colonisation has also left some scars resulting in some form of antagonism towards the UK. For example during colonisation, the UK government established the monopolistic Cocoa Marketing Board which paid farmers meagre sums of money for crops (Acemoglu and Robinson, 2010). This was considered to be pure exploitation and a consequence of colonisation. These kinds of associations would be considered to have a negative effect on trade, perhaps one of the reasons why Ghana wanted to “cut off the umbilical cord of ties” between the country and the UK immediately after independence, a practice somewhat replicated in other Africa countries (e.g. Tanzania) (Amankwah-Amoah, 2016). However trade between the UK and Ghana has remained buoyant. The UK Government has also been instrumental in assisting Ghana to make an impact in the Commonwealth and further supports British nationals in Ghana (Gov.uk, 2013). According to Jones (2013), governors with high salary were generally sent to colonies which generated high revenues, such as Ghana. These facts underscore how important Ghana was during the colonial days and still remain an important business partner for UK businesses. These include UK companies already based in Ghana and those who still export to the country (see Head, *et al.*, 2010). The UK has also been one of the top destinations for Ghana’s exports (Mmieh, *et al.*, 2012).

Previous research on trade between colony and coloniser has been extensive. In fact *Critical*

*Perspectives on International Business* devoted a Special Issue for reflection on management and organisations from the postcolonial perspective (Banerjee and Prasad, 2008). Generally, existing research indicates that the colony-coloniser relationship between countries could boost trade and FDI significantly (Guiso, et al., 2009; Ghemawat, 2001). Historical ties must also be friendly in order to create positive influence, which will attract FDI. Makino and Tsang (2011) in their study allude to this factor, by stating that the impact of historical ties between two countries can be positive or negative depending upon how friendly or hostile the colonial ties were perceived to have been in the past. Evidently, UK colonial relationship with Ghana had at times been deemed hostile, considering Ghana's quest for independence and the colour symbolism in the national flag as explained previously (Ndzibah, 2010). Similarly the remnant of UK companies from the colonial past, and legacies such as inheritance of UK common laws and education may be seen as positive. Our research clarifies, from the perspective of UK companies, whether they believe such historical legacies impact on FDI prospects.

There has also been increased attention on African countries as previous colonies of both UK and Europe (Bankole and Adewuyi, 2013; Naudé and Krugell, 2007; Asiedu, 2006). However the effects of historical factors on FDI in Africa have not been fully explored, even though these factors have been explored with regards to other emerging markets (Foad, 2012; Makino and Tsang, 2011). The notable exception is that of de Mauro (2013) who explored the incompatibility of colonial legacies in the form of reliance on export of natural resources and organisation of labour markets on the one hand, and the structural adjustment programme in Africa on the other hand, as reasons for lack of investment in Sub-Saharan Africa. Milhomme, (2004), also examined the post-colonial relationship between Africa and the UK but the emphasis was on trade in general, highlighting how gradually countries have become less dependent on their colonial ties especially in areas such as reduction in import and export between the countries concerned. Amankwah-Amoah (2016) also examined the colonial legacies on Africa but only from the perspective of how they have affected management research, thinking and knowledge without specific focus on FDI. Our research departs from the existing research by examining country of origin and institutions, as presented in the following sections:

### 2.1. *Agglomeration Opportunities*

The pull factor of agglomeration for UK companies is measured from the perspective of the presence of other UK companies (country of origin agglomeration) (Tan and Meyer, 2011). The general consensus is that agglomeration positively correlates with FDI, as it offers companies the opportunities to share liabilities and complement one another. Chidlow, *et al.*, (2009: 121) also hypothesised that agglomeration is a significant motive for inward FDI, and that the stronger agglomeration factors are represented in a region, the more likely a multinational company will engage in FDI in that region. This is consistent with Waldkirch and Ofosu, (2010). They revealed that the presence of foreign companies has significantly positive productivity effect on foreign companies located in Ghana.

Tan and Meyer (2011) advanced the country of origin agglomeration by asserting that it offers a different level of benefits to companies from the same home country clustering in a host country. These benefits include access to local level knowledge, home country-specific resources, trust and legitimacy. They contend that new companies in a country find it difficult to develop trust with local partners, due to their vulnerability and lack of understanding of how businesses operate in the new environment. Therefore country of origin agglomeration enables newcomers to build the required trust with their compatriot FDI companies. This is because it is believed that people are more likely to be attracted to and trust people with whom they share

essential attributes such as ethnic origin (Miller, *et al.*, 2008; Manev and Stevenson, 2001). Besides, companies from the same country may belong to the same formal and informal associations formed for the benefit of members. The following has therefore been hypothesised to confirm the extent to which agglomeration opportunities may influence UK companies to invest in Ghana:

*H1: Country of Origin Agglomeration opportunities provided by other UK companies relate positively to UK inward FDI in Ghana regardless of FDI motive.*

*H1<sub>0</sub>. Country of Origin Agglomeration opportunities provided by other UK companies do not relate positively to UK inward FDI in Ghana regardless of the FDI motive*

## 2.2. Institutional factors in the form of Ideologies and laws act as pull factors

Peng, et al. (2008: 921-922) examined different definitions of institutions in order to provide ways in which the concept is realised in international business. Citing North (1990: 3) they defined institutions as “the humanly devised constraints that structure human interaction”. Additionally, they cited Scott’s (1995: 33) definition as “regulative, normative, and cognitive structures and activities that provide stability and meaning to social behavior”. Based on the above, Peng, et al., (2008) split institutions into formal and informal, which we apply in our current research. They project culture as part of informal institution and institutions governing politics, law and society as part of the formal. We adopt similar definitions of institution in this research, and below offer explanation of how both formal and informal institutions have been passed on from UK to Ghana, which then could contribute in presenting familiarity, opportunities and reduction of perceived risk for UK investors in Ghana.

There are a number of private British companies in former British colonies such as Ghana and Nigeria. However it is not clear whether history of colonisation has any significance as far as choice of FDI location is concerned. Historically, colonialism contributed certain factors such as laws, educational systems, tax systems and bureaucracies (Amankwah-Amoah, 2016; Boussebaa and Morgan, 2014; Peng, et al, 2008). These provide the institutional framework, which pull FDI (Makino and Tsang 2011; Frankel and Rose, 2002). Institutions are simply defined as the formal and informal rules that govern economic exchanges and interactions, (Holmes Jr., *et al.*, 2013; Seyoum, 2011). These are considered to be relevant for FDI (Makino and Tsang, 2011), as multinational companies seek to invest in countries with the best institutional facilities to help companies achieve the best value for their core competencies (Dunning, 2009, 2008, 2000). Institutional theory indicates that firms could be hindered or enabled by institutional environment (Story, et al., 2015; Bruton, et al., 2010). For example, culture, described as part of informal institution (Peng, et al, 2008) could influence purchasing behaviour, taste, preferences and general attitude towards specific brands and products. Positive attitude towards UK brands due to the familiarity of culture between the two countries could present positive prospects for UK companies’ marketing seeking investment.

Formal institutional arrangements, an important colonial influence, potentially reduce agency and transaction costs incurred in investing in emerging economies (Child and Tse, 2001). These formal bilateral arrangements provide investors guarantee and protection for investors. This is in agreement with Bankole and Adewuyi (2013). They found, through econometric analysis, that bilateral trade treaties significantly improved FDI between West African countries and EU countries. Their research confirmed that in West Africa, the UK has bilateral relationships with a number of countries including Nigeria and Ghana. The formal bilateral institution arrangement goes as far back as the colonial days and continues to have legitimacy through the

Commonwealth, diplomatic relations and trade agreements. These could potentially increase trade between the countries concerned due to reduction in risk and uncertainty attributable to relational trust among companies with social and colonial ties (Makino and Tsang, 2011; Tan and Meyer, 2011; Zhao and Hsu, 2007).

Apart from formal institutions such as the bilateral treaties, there are also informal ties which are developed through what Makino and Tsang (2011) refer to as the unwritten rule, and they believe historical ties such as colony-coloniser relationship can play a role here. They believe the role can be negative or positive, depending upon how the historical relationship is perceived.

Research reveals negative experiences that Africa countries in general, had to obey their colonial masters with little or no opposition to their authority. As such, raw materials were bought at low prices and shipped to colonialists' home countries such as France, Portugal, Belgium and Britain. Similarly, there are examples of positive outcomes from the colonial relationships as African countries continue to seek support from developed countries, some of whom are their former colonial masters (Beraho, 2007). In reference to Makino and Tsang (2011), the question remains to be answered regarding which of the above negative and positive experiences investors believe dominate FDI determinants in Africa. In this research informal ties and informal institutions are used interchangeably (see Holmes Jr., *et al.*, 2013; Seyoum, 2011; Bevan, *et al.*, 2004). It will investigate the UK investor's perspective on how both formal and informal ties contribute towards the flow of FDI to Africa with Ghana as an example. It is believed that colonialism in Africa was disadvantageous to the African (Muiu, 2010). Besides, Acemoglu and Robinson (2010) state that Britain did all they could to kill the boom of Ghana, through monopolistic institutions such as the Cocoa Marketing Board to buy cocoa at cheap prices from farmers, and by refusing to develop the country's infrastructure. This was despite the fact that the colonial rulers had been petitioned to develop the transport infrastructure, especially between Accra (the capital city of Ghana), and Kumasi (the second biggest city) in the country. Based on the above H2a below is hypothesised. This is because though there have been some negative experiences, measuring the perspective of companies rather than citizens would reflect on the benefits to the companies and therefore consistent with country of origin agglomeration. Overall, existing research indicates that institutions inherited from the colonial past still influence trade in former colonies (Awad and Yussof, 2017; Rose, 2000).

*H2: The formal and informal institutions have positive effect upon UK FDI, in the form of demand for UK products and services regardless of FDI mode.*

*H2<sub>0</sub> The formal and informal institutions do not have a positive effect upon UK FDI, in the form of demand for UK products and services regardless of FDI mode*

### **3. Research Design**

This study adopted a mixed research method approach using a combination of survey and semi-structured interviews. Based on information from Ghana Investment Promotion Centre (GIPC), the study targeted all the 286 UK companies located in Ghana at the time of the data collection. GIPC source is appropriate, as they register all FDI in the non-extractive industry in Ghana. Similarly, we focused solely on the non-extractive industry to provide depth and relevance to GIPC, whose remit as an investment promotion agency does not cover the extractive industry. There was no need to discuss sampling methods and sampling errors, as all UK companies identified as having FDI in Ghana at the time of data collection were contacted (Bryman and Bell; 2011; Saunders, *et al.*, 2009). In total, 101 usable responses were analysed, representing a 35% response rate, which is consistent with other research (Bartels *et al.*, 2014). Five point

Likert scale was used to measure respondents' perception of the variables, and how they impacted on their investment in Ghana.

The questions asked in relation to country of origin agglomeration and institution are presented and analysed in Section 4.

Additionally, T test was used to confirm the extent of the moderating effect of entry mode choice in relation to the above variables. This establishes whether the importance of country of origin agglomeration and institution differ depending upon entry mode. Furthermore, the relationship of FDI motives to the location factors was established using Pearson correlation (presented in Table 3). Consistent with the explanatory mixed method, eight sequential interviews with executives were conducted through convenience sampling to enrich the discussion of the findings. Explanatory mixed research method is a data collection approach which combines quantitative data with qualitative data but prioritises the quantitative data. In this approach, quantitative data is first collected and analysed, and based on the results, interviews are conducted to offer further explanation of the results (Harrison and Reilly, 2011; Ivankova, et al, 2006). Following this approach, the interviews were deductively analysed by manually categorising the responses according to the questions asked, in order to build explanations of the survey findings. Overall, the combination of data from multiple sources within a reliable typology ensures that value (rich qualitative data) is added to the (quantitative) research (Birkinshaw *et al.*, 2011).

To statistically measure reliability, Cronbach alpha test was applied. (Brace, *et al.*, 2012). With Cronbach alpha score of 0.770, the reliability for this research was deemed acceptable. For the qualitative component the interviewees were given the opportunity to review the transcripts of their interviews. Before the questionnaires were administered, a pilot study was carried out with 4 companies allowing for errors to be corrected. The revised questionnaire was then sent to the rest of the companies in the population. The questionnaire only targeted respondents in managerial positions who were expected to be familiar with the strategies and objectives of the organisations they represented. The respondents included chief executive officers, general managers, marketing managers, finance managers, communication and public relations managers. In addition, the inclusion of the interviews allowed for further elaboration on the findings from the quantitative survey. In this regard, Lobe and Vehover (2009) believe that combining different measurement techniques improves the validity of the research findings.

#### **4. Results**

The findings are presented below concerning how the two main concepts (country of origin agglomeration and institutions) affect inflow of FDI into Africa, using the historical relationship between the UK and Ghana as an example, starting with agglomeration.

##### *4.1 Agglomeration*

Companies were asked to confirm whether their FDI in Ghana was motivated by the presence of other multinational companies as suggested by the proponents of the agglomeration concept (Lamin and Livanis, 2013; Tan and Meyer, 2011; Procher, 2011; Bronzini, 2007). A separate question was incorporated to ascertain the effect of country of origin agglomeration (whether the presence of UK companies attract other UK companies to host countries which have colonial ties with the home country). Companies in host countries could benefit from perceived economies emanating from localisation (cluster of companies supplying similar goods and services) and urbanisation (cluster of companies providing different goods and services). They could also obtain country of origin agglomeration benefits such as legitimisation, local market

knowledge and trust (Tan and Meyer, 2011). Table 1 confirms the results from respondents regarding why they located in Ghana, in relation to the pull effect of other companies, including other UK companies. Companies were simply asked to answer yes or no to the related questions.

	Yes	No	% (Yes)	% (No)
<b>Because we identified other companies already located in the country that could serve as our customers or suppliers</b>	71	30	70.3	29.7
<b>Because we identified companies already located in the country that had assets or expertise to complement our own</b>	61	40	60.4	39.6
<b>Because there were groups of companies in the country we could cooperate with</b>	51	26	66.2	33.8
<b>Because there were other reputable foreign companies located in the country</b>	49	52	48.5	51.5
<b>Because there were other UK companies located in the country</b>	37	62	37.4	62.6

Table 1: Significance of agglomeration

From the above, it is evident that majority of the companies accept that the presence of other multinational companies in Ghana contributed in their decision to invest in the country. However, the last two statements also confirm that majority of UK companies were not drawn to Ghana because of the presence of other UK companies (country of origin agglomeration) or because reputable companies were already located in the country. They were more interested in seeking customers and suppliers for their products or services, companies with complementary assets and generally companies they could cooperate with. The agglomeration effect could mean that the African governments could target groups of companies rather than companies in isolation, in their marketing strategy. If companies already have existing collaboration in the home country, targeting both may have a greater effect than just one so that the targeted company is assured of the continuous mutual benefits and the market potential in Ghana.

Agglomeration generally has a significant effect on inflow of FDI due to the benefits it presents to companies. Majority of the companies surveyed are drawn by the presence of other companies for various reasons. Though the presence of other UK companies does not seem to be significant to the majority of companies, it may be argued that some of the companies who indicated no agglomeration effect of other UK companies may still be influenced by agglomeration – but not necessarily because the potential partner is from the UK, but rather because they offer desirable assets. The above hypothesis additionally sought to confirm if there was any difference between wholly owned subsidiary and other modes of entry in how agglomeration affects inward FDI. A T-test was therefore carried out, and with a p-value of 0.129, there is no significant difference between responses for wholly owned FDI and the other modes of entry. This confirms that the attitude of companies towards agglomeration as a determinant of FDI is similar.

Overall, there is a strong evidence of the effect of agglomeration in Ghana, and this is consistent with the theoretical expectations in relation to agglomeration effects, because all companies can potentially benefit from the advantages of agglomeration, whether wholly owned or joint venture (Tan and Meyer, 2011; Dunning, 2001). It has been stated that in Ghana, the fruit processing industry for example benefits from agglomeration (Morrissey, 2012). Foreign companies are located where other foreign companies are located. Also, as companies

concentrate in a geographical location, improved infrastructure and concentration of customers and suppliers are provided, which also contributes in making the country more attractive, thereby creating a cycle (Ezeoha and Cattaneo, 2012). The presence of other companies also creates what has been called “follow my leader” theory (Knickerbocker, 1973), which was one of the earliest attempts to explain the clustering of FDI.

Agglomeration potentially improves infrastructure, therefore it is no coincidence that in Ghana relatively good infrastructure is concentrated in a few urban areas where foreign companies are also clustered (Oke, *et al.*, 2014). It must however be emphasised that from the survey results, majority of the companies surveyed were not influenced by the presence of other UK companies in Ghana. This is contrary to the theoretical expectation, as for example, it is established that co-locating with companies from the same country enhances chances of survival (Tan and Meyer, 2011). Companies were more interested in the availability of companies, which offer complementary assets or services, regardless of their country of origin. As a result, the remnant companies from colonial past do have only limited effect on attracting new FDI to Ghana in particular.

Furthermore, contrary to Ezeoha and Cattaneo (2012) who found the effects of agglomeration to be insignificant in sub-Saharan Africa, our results here are significant if viewed from all companies regardless of home country and any colonial ties. Ezeoha and Cattaneo attributed their findings to the fact that the bulk of the existing FDI in the sub-Saharan region are in the area of natural resources, which does not rely extensively on agglomeration. Their explanation is consistent with the findings of other studies, which use the scarcity of natural resources theory. It holds that because it may be difficult to find the required natural resources in many alternative locations, some factors, which might otherwise be a deterrent, may be overlooked (Cantwell, *et al.*, 2010). As companies operating in the traditional natural resources have been excluded from this current research, it not surprising that agglomeration has been found to be very significant. This is therefore a pointer to why country-specific data may be required in some situations, rather than relying on generic assumptions and predictions. A respondent revealed an investment promotion strategy below in an interview, which highlight the perceived effect of the pull factor of existing companies particularly, from the same country:

*“...Sometimes if we are going to a particular country, maybe, England, ... ,we might have to convince some English-based businesses in Ghana to tell their colleagues about their investment experience, business experience in Ghana. It’s easier for your countrymen to convince you than another person”*

The above confirms the perception of an official from investment promotion agency, which clearly supports country of origin agglomeration effects. However, this view is contrary to the perception of majority of the companies surveyed. Generally the presence of other companies has the possibility of attracting more companies into the country. However, the survey confirms also that majority of UK companies may not entirely be convinced by the mere fact that companies from UK act as the pull factor in spite of the colonial link, but companies regardless of the country of origin attract them. This is also consistent with research findings elsewhere (Lauthier and Moreaub 2012; Ndikumana and Verick’s 2008). Both studies found that high level of private investment in an area attracts FDI because it indicates to investors that there is a potential for good return on investment. Also, Nyarko *et al.*, (2011) found agglomeration effect and democracy in Ghana to be quite significant. Furthermore, Harvey and Abor (2009) found that local companies with skilled workers and higher technological capacity attract FDI. It must be emphasised that though majority of the companies did not believe country or origin

agglomeration to be a significant factor in their investment in Ghana, 37.4 per cent of the companies have been influenced directly by country of origin agglomeration, which is still significant and cannot be ignored.

In sum, the above provides some, but no overwhelming support for the positive effects of country of origin agglomeration. However there is overwhelming support for the pulling effects of agglomeration in general. Therefore the first hypothesis is accepted, and the null hypothesis is rejected.

*H1: Country of Origin Agglomeration opportunities provided by other UK companies relate positively to UK inward FDI in Ghana regardless of FDI motive*

#### 4.2 Influence of colonial ideologies and laws (Institutions) on services and products

The effects of colonial ties on FDI inflow was measured by asking companies the extent to which they believed the colonial past would influence the people of Ghana to have a favourable attitude towards products of UK companies or the products of their competitors from other countries. UK Companies were also asked if overall the colonial ties affected their decision to invest in the host country. Using the five point Likert scale and assuming the neutral point of 3 (Lillis and Sweeney, 2013; Cheng, 2008), the results confirm that the mere fact of colonial past does not have a significant effect on choice of host country with mean of less than 3 and median of 3, as presented in table 2. The result is contrary to what has been hypothesised elsewhere. For example Andrés et al. (2013) expect a positive relation between colonial ties and FDI due to institutional factors. They contend that similarities from colonial days such as common language and social ties reduce cultural or psychic distance (cultural and social). This reduction in distances minimises liabilities of foreignness. It has also been suggested that historical ties in relation to colonial rule and occupation could influence FDI due to knowledge of the environmental dynamics in the host country and the fact that the institutional framework of the host country was constituted during the colonial days (White III, et al, 2015). Though the colonial ties present some similarities (White III, et al, 2015; Foad, 2010) and reduction in risks and uncertainties (Makino and Tsang, 2011), the most crucial factors lie elsewhere. These may include political stability, market size and agglomeration opportunities (Barthel, *et al.*, 2011; Harvey and Abor 2009).

	Mean	Median	Standard Deviation
<b>Effect of colonial past on choice of host country</b>	2.8	3	1.1
<b>Effect of colonial past on preference for non-UK goods</b>	3	3	1.3
<b>Effect of colonial past on preference for UK goods</b>	3.5	4	1.2

Table 2: effect of colonial past (institution) on FDI

Informal institutions (informal ties or unwritten rule) appear to be marginally stronger statistically in Ghana, but surprisingly, to the advantage of the UK investor, with a median value of 4 in a five point Likert scale. Makino and Tsang (2011) suggest that the effect of colonial history may have positive or negative, depending upon how the period of colonisation was perceived. It has been reported that the colonial experience was not favourable (Acemoglu and

Robinson, 2010; Muiu, 2010). It was therefore anticipated that the historical past would have negative effect towards preference of UK goods and services. However, from the above results, the surveyed companies relatively perceive a positive attitude towards UK products. This may be because the historical past may have introduced Ghanaians to UK goods and services, which have become part of their culture from generation to generation (Peng, et al, 2008), and therefore emphasis is placed on satisfaction from the product or service itself. Besides, products from the UK are perceived as of superior quality, compared with those from emerging markets (Acquaah 2009). This view also seem to have been supported in a release by Barclays Bank, which indicated that overall, consumers were prepared to pay as much as 22 per cent premium for British products (Barclays Corporate Banking Trade Report, 2018). Another possible explanation of the positive attitude towards products from the UK is the fact that this effect was measured from the companies' perspective. It may be that the consumers may have a different view to that of the companies. Furthermore, it has been stated elsewhere that the UK companies actively invest in the old colonies because of the cultural ties (informal institutions) the British established during the colonial times (Milhomme, 2004).

Similarly Makino and Tsang (2011) are of the view that historical ties establish institutional framework (formal institutions) which current companies may still benefit from. For example, Standard Chartered Bank, which used to enjoy monopoly in the then Gold Coast (now Ghana) and in majority of the Anglophone West Africa until 1916 when the Colonial Bank (now Barclays Bank) entered the market (Austin and Uche, 2007), is still one of the major banks in Ghana. Also, the sense of Britishness influenced British investment in Canada in the 19<sup>th</sup> and the 20<sup>th</sup> centuries (Smith, 2013). However, it appears times have moved on significantly from those days. Market seeking UK companies locate in Ghana because there is demand for British products – demand supported in no small way by the informal historical ties between Ghana and the UK. Though the institutional framework exists which could be exploited as a result of the historical ties between Ghana and the UK, this is not deemed as crucial at the formal level, by majority of the companies surveyed, though it is deemed important at the informal institution level. The interviews conducted to probe this unexpected result revealed the following at the formal institution level, when a Finance Manager was asked about the effects of formal institutions on their investment in Ghana:

*It is not directly, except that because we are a subsidiary, whatever laws the UK government imposes, first affects our parent company and therefore indirectly will affect us. Obviously the historical and current relationship between Ghana and the UK may impact on laws introduced, which could affect us – but the effect is not direct.*

Overall majority of the surveyed companies do not find formal institutions very significant, despite the theoretical underpinning of the potential of institutions measured from the perspective of historical ties. This is also consistent with what has been stated elsewhere in relation to the social network theory. It alludes that market entry depends on the company's social network within the host country to accelerate information flow rather than on institutional conditions, among other factors such as economic and cultural conditions (Zhao and Hsu, 2007).

From the above results, it may be concluded that regardless of the FDI motives, institutional variables were partially important to the surveyed UK investors.

As informal ties seemed to be important to UK companies in their perception of attitude of consumers towards UK products, Pearson correlation was additionally run between Informal ties (informal institution) and the market-seeking FDI motive to confirm the relationship

<b>Correlations</b>			
		informal institution/ Ties	To seek markets for our products
informal institution/ties	Pearson Correlation	1	.170
	Sig. (2-tailed)		.117
	N	90	86
To seek markets for our products	Pearson Correlation	.170	1
	Sig. (2-tailed)	.117	
	N	86	96

Table 3: Correlation between informal institutions/ties and market-seeking motive

With the p-value of 0.117, the correlation is positive but insignificant. Furthermore the individual components of informal institutional variables were also tested to confirm if the combination of the variables had hidden potentially significant correlations which otherwise would have been significant. However, similar to the above, with the p-values of 0.631 (informal ties in relation to preference for non-UK goods and services), and 0.072 (informal ties in relation to preference for UK goods and services), therefore the null hypothesis is rejected, that is- *The formal and informal institutions do not have a positive effect upon UK FDI, in the form of demand for UK products and services regardless of FDI mode.*

Though there appear to be positive correlation, this is not significant, regardless of the FDI motive. It must be noted that these responses have been taken from the investors' perspective. It would be interesting to see if the average consumer in Ghana is influenced by informal institutions or ties in their purchases of goods and services. This is however outside the remit of this research. The insignificant effect of the correlation between market-seeking FDI and informal ties is rather surprising because common ties such as common language and colonial ties as exist between Ghana and the UK are known to influence international trade (Zhao and Hsu, 2007). However, it has been acknowledged that the same or similar institutions may be associated with different outcomes in different countries (White III, et al, 2015; Seyoum, 2011; Pajunen, 2008), hence the essence of country-specific analysis, as employed in this research.

## 5. Conclusion

Overall, despite the expectations that colonial legacies influence the flow of FDI (Makino and Tsang, 2011), the colonial past is not an overwhelming contributory factor to majority of UK investors in Ghana. Our study, through careful examination of available literature uncovered some factors such as remnants of UK companies from colonial days which are still strongly operating in Ghana. Though such remnants may be examples to other companies from the UK, this paper contend that they are not a strong determining factor on their own to the majority of UK investors currently operating in the Ghana. This is contrary to expectations, as it was anticipated that UK companies would invest in Ghana with the view to strengthen colonial and friendship ties (Bankole and Adewuyi, 2013), and to exploit country of origin agglomeration (Tan and Meyer, 2011). The majority of the companies examined are more interested in opportunities in host countries regardless of any social or cultural synergy that may be inherited from colonial legacies, though such legacies contribute to FDI in about a third of the cases. This paper presents arguments through examination of two key concepts, which can be linked to the relationship between the UK and Ghana right from the colonial days. The two concepts are

agglomeration (country of origin agglomeration, to be specific) and institutions (which include both written and unwritten rules which govern how transactions take place).

This research confirms that agglomeration opportunities are important determinants for UK companies regardless of the country of origin of companies, and irrespective of the choice of entry mode. However, a third of the companies find country of origin agglomeration to be significant determinant.

Overall, the paper concluded that the bilateral relationship between Ghana and the UK and the historical link have some, but limited significance in their current investment in Ghana. This result has policy implications for GIPC in particular and other investment promotion agencies in Africa in general if they want to attract UK FDI. The hitherto country of origin agglomeration is not as important to stress in their policies and marketing communication, compared with agglomeration opportunities in general. Nevertheless, the presence of other companies has the effect of drawing some UK companies to Ghana due to the benefits of agglomeration. Companies creating agglomeration effect in Ghana do not necessarily have to be UK companies, according to the views of majority of the companies; therefore the Ghana government assisting in nurturing both domestic and foreign companies in the country has the potential of attracting other UK companies into the country, as a long term strategy.

In relation to our contribution to literature, our research has expanded the discussion on the effects of agglomeration and institutions (both formal and informal) in FDI attraction, to incorporate colonial legacies in Ghana as a case study. Considering that there are some similarities between some African countries in terms of colonial history (e.g. Nigeria and Ghana), the findings potentially have wider implications on UK FDI in Africa in general.

## **6. Limitations and Further Research**

The study focused on the effects of the colonial ties between the UK and Africa, using companies operating in the non-extractive industry in Ghana as an example. It is therefore suggest that the findings are applied with reasonable caution in terms of generalisation. A comparative study should be conducted to investigate how the variables examined in relation to the UK investor in Ghana compare with how the UK investors in other African countries perceive them. These include how institutions, agglomeration and overall colonial ties as a result of these two concepts impact on flow of FDI to Africa and in deed other former colonies. This type of research should include a study involving African countries which were British colonies, such as Nigeria, to identify any possible similarities or differences. This will undoubtedly provide further insight into the relevant determining factors in investing in Africa from the UK companies' perspective. Then the research could be extended to compare how the same variables are perceived in former non-British colonies for consolidation of the knowledge on the effects of colonial legacies on inflow of FDI in Africa.

Besides, future research could examine the attitude towards UK products from consumers' perspective as this research uncovered that UK companies do not believe the colonial past has any significant effect on Ghanaians' choice of goods and services. The question regarding whether the companies are simply unaware of any potential advantages or disadvantages, which need to be managed, still remains unexplored. This is important as Acquah (2009) identified differences in attitudes of some African countries towards products from the UK in comparison with products from Brazil, China, South Korea and India. Future research questions may specifically focus on whether given the choices between goods and services from former colonial masters and another countries, African consumers may be influenced either way in their attitudes towards the market offerings from former colonial masters such as the UK, France, Portugal and Belgium. Future studies investigating whether the colonial legacy has any

effect on attitude towards UK products should control for other factors such as price and perceived quality. This study will provide key contribution to practice in terms of how companies manage any disadvantages or advantages.

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