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Tension between multinational enterprises and host-country government partners: A spillover perspective in natural resource-rich developing economies

Marco Martins Morgado

14010284

A research project submitted to the Gordon Institute of Business Science, University of Pretoria in partial fulfilment of the requirement for the degree of Masters of Business Administration.

10 November 2014

Abstract

This dissertation presents a novel theoretical framework that conceptualises the existence of tension between multinational enterprises (MNEs) and local firms, in particular host-country government partners (HGPs), and its mediating mechanisms with regard to the realisation of spillovers from inward foreign direct investment (FDI) in emerging and developing economies. The contributions are twofold: firstly it provides a better understanding of the potential strategies used by local firms to get and maximise benefits they obtain from spillovers of inward FDI; secondly, it contributes to the extant literature with novel theoretical constructs that conceptualise the abovementioned tension and its mediating mechanisms. An in-depth qualitative interview data analysis is used to support the findings and build up the proposed theoretical constructs.

With regard to the potential causes that underpin the existence of tension in a spillover context, four main causes were identified, that closely relate to the dyadic contrasting objectives of MNEs profit maximisation and of local firms benefits maximisation. The newly proposed framework brings together three theoretical lenses – competitive tension, relational competition and network bargaining power – under the central theme of spillover perspective to build an overall powerful model of the interactions between MNEs, the host-country government and its local partners as well as domestic firms. The overarching and resulting model highlights the relational interaction, as opposed to purely transactional or rivalrous behaviour, between MNEs and local firms. It also shows use of bargaining influence by locals to align realised spillovers to the expectations of locals, both as spillover enhancing and tension relieving mediating mechanisms.

Keywords: FDI, spillovers, competitive tension, relational competition, network bargaining power

Declaration

I declare that this research project is my own work. It is submitted in partial fulfilment of the requirements for the degree of Master of Business Administration at the Gordon Institute of Business Science, University of Pretoria. It has not been submitted before for any degree or examination in any other university. I further declare that I have obtained the necessary authorisation and consent to carry out this research.

Date: 10 November 2014

Name: Marco Martins Morgado

Signature: Marco Morgado

Acknowledgments

My first word of appreciation goes to my advisor Prof. Albert Wöcke, to whom I gratefully acknowledge all the outstanding support on my path as a business researcher. We shared interest, excitement and excellent discussions on the topic, which contributed for the outcome presented in this dissertation.

Throughout these two years at GIBS, I had the pleasure of crossing paths with so many interesting lecturers, whom I believe that greatly contributed to my growth and departure from a narrowed view of business to a wider perspective of all factors that compose a business life. I also made true friends for life, whose friendship I hope to carry into my elderly days.

To my amazing family, words are, by far, not enough to express my gratitude for believing and supporting me. To my love, my amazing wife, thank you for all the support and love. I know how hard this has been and I promise to make it up for you.

Last but not least, to my colleagues and managers at work who also believed in me and supported my studies, thanks for all the support. To my managing director, Johan De Vos, my sincere thank you. I was overwhelmed when you convinced me to do the MBA then, instead of waiting for one more year, but it has paid off. I would also like to thank all the interviewed subjects that promptly agreed to participate in the study.

“These developments increase our responsibilities, by one side, to place those resources firmly in our development matrix, which is the great expectation of our people. On the other side, we have responsibilities in assuring a growing favourable environment to national and foreign investment (...) There is no contradiction between these two strands, that is, between promoting the development of our Mozambique and assure the return on investment of our business men and women.”

**His Excellency Armando Guebuza
President of the Republic of Mozambique**

At the 4th International Conference on Mining, Gas and Energy,
held in Maputo on the 27th of March 2014

Table of Contents

CHAPTER 1 Introduction.....	1
1.1 <i>Relevance and contributions of the study</i>	2
1.2 <i>Scope and context of the research</i>	3
1.3 <i>Dissertation structure</i>	5
CHAPTER 2 Literature review.....	6
2.1 <i>Spillover perspective</i>	7
2.2 <i>Competitive dynamics/tension framework perspective</i>	10
2.3 <i>Network-ties, political embeddedness and relational perspectives</i>	12
2.4 <i>Network bargaining power</i>	16
2.5 <i>Summary</i>	19
CHAPTER 3 Research questions and propositions	22
CHAPTER 4 Research methodology.....	23
4.1 <i>Research design</i>	23
4.1.1 <i>Research philosophy</i>	23
4.1.2 <i>Research approach</i>	23
4.1.3 <i>Type of study</i>	24
4.1.4 <i>Research strategy</i>	24
4.1.5 <i>Time dimension</i>	25
4.2 <i>Research scope</i>	25
4.3 <i>Universe and population</i>	26
4.4 <i>Unit of analysis</i>	26
4.5 <i>Data collection</i>	26
4.5.1 <i>Sampling technique</i>	26
4.5.2 <i>Sample size</i>	26
4.5.3 <i>Design</i>	27
4.6 <i>Data analysis</i>	29
4.7 <i>Limitations</i>	30
4.8 <i>Summary</i>	30
CHAPTER 5 Findings and results	32
5.1 <i>Tension existence and causes</i>	32
5.1.1 <i>Provision of services, lack of capabilities and low quality and safety standards</i>	34

5.1.2	Development of local partnerships and shareholding	34
5.1.3	Domestic markets development by extractive MNEs	35
5.1.4	Return maximisation and timeframe perspective of the MNE.....	35
5.2	<i>Strategies used by local firms to maximise benefits from spillovers</i>	36
5.2.1	Lobbying government and claiming benefits	36
5.2.2	Local firms partnering with foreign service providers.....	37
5.3	<i>Tension differentiation between private and local government-controlled firms...</i>	39
5.4	<i>Relational vs. transactional approach to mediation on the tension and spillovers</i>	41
5.4.1	Local private firms scepticism about benefits of a more relational approach	42
5.4.2	Positive effects of a relational approach to reduce the tension	42
5.4.3	Effects on realisation of spillovers	44
5.4.4	Differences between western and eastern MNEs.....	45
5.5	<i>Tension mediation by changes in network bargaining power</i>	45
5.5.1	Political lobbying and complaining by locals.....	46
5.5.2	Civil society as a source of bargaining power.....	48
5.5.3	Effects of lobbying and complaining on the tension and benefits from spillovers.....	49
5.6	<i>Summary of findings and results</i>	52
CHAPTER 6 Discussion of findings and results		54
6.1	<i>Research Proposition 1</i>	54
6.1.1	Analysis of tension and potential causes.....	54
6.1.2	Conclusion	57
6.2	<i>Research Question 1</i>	58
6.2.1	Analysis of the strategies used by local firms to maximise benefits obtained from spillovers.....	58
6.2.2	Conclusion	60
6.3	<i>Research Question 2</i>	60
6.3.1	Analysis of the differentiation of tension between private firms and local government-controlled firms	60
6.3.2	Conclusion	62
6.4	<i>Research Proposition 3</i>	62
6.4.1	Analysis of a relational vs. transactional approach to mediation of tension and spillovers	63
6.4.2	Conclusion	64

6.5	<i>Research Proposition 4</i>	64
6.5.1	Analysis of political lobbying and complaining by locals	65
6.5.2	Analysis of civil society as a source of bargaining power	66
6.5.3	Conclusion	67
6.6	<i>Research Question 3</i>	67
6.6.1	Analysis of the effects of lobbying and complaining on the tension and benefits from spillovers	68
6.6.2	Conclusion	69
6.7	<i>Summary of the discussion of the findings</i>	69
CHAPTER 7	Conclusion	72
7.1	<i>Main findings and conclusions</i>	72
7.1	<i>Additional findings</i>	74
7.2	<i>Contributions</i>	75
7.3	<i>Implications for businesses</i>	76
7.4	<i>Implications for policymakers</i>	77
7.5	<i>Limitations</i>	78
7.6	<i>Discussion of validity and reliability</i>	78
7.7	<i>Recommendations on directions of future research</i>	80
REFERENCES	81
APPENDIX A	Interview guide	87
APPENDIX B	Consent form	89
APPENDIX C	Preliminary set of codes for data analysis	91
APPENDIX D	Narrative analysis with quotes from interviewees pertaining to Proposition 1	92

List of Figures

Figure 1 - Real GDP growth rates: Advanced economies vs. emerging market and developing economies. Source: (IMF, 2014).....	4
Figure 2 - Real GDP growth - BRICS (Brazil, Russia, India, China and South Africa) vs. Mozambique from 2006 to date and forecasted to 2015. Data Source: (IMF, 2014)	5
Figure 3 - Spillover benefits likelihood depending on the economic development of the host-country. Source: Meyer and Sinani, 2009.....	11
Figure 4 - Overview of the spillover-tension topology applied in the research proposed herein. Host-country government partners (HGPs) represent local firms that are connected to government through formal or informal partnerships and network-ties, which allows them to exert influence over the network bargaining power and mediate in the tension between MNEs and local firms. Source: Author's own elaboration, based on the literature.	20
Figure 5 - Tension between MNEs and local firms and its causes. The contrasting dyadic objectives of MNEs and HGPs are illustrated in the vertical axis. The tension reinforcing link from the lack of capabilities of local firms to provide services to MNEs and the latter seeking service providers externally, is illustrated by the feedback arrow connecting the two ends of the horizontal axis.....	58
Figure 6 - Effects of the use of bargaining influence and relational interaction on the tension and benefits from spillovers that are potentially obtained by local firms. ..	71
Figure 7 - Model of the spillover-tension topology. Host-country government partners (HGPs) represent local firms that are connected to government through formal or informal partnerships and network-ties and are thus able to exert influence on the network bargaining power and mediate the tension between MNEs and local firms. Source: Author's own elaboration based on the findings of the research presented herein.....	75

List of Tables

Table 1 - Cases summary and interviewees information and characterisation.....	28
Table 2 - Research proposal design summary – based on the layers of the research onion (Saunders & Lewis, 2012).....	31
Table 3 - Tension existence: key and conceptual themes that emerged from the data analysis.....	33
Table 4 - Summary of the set of propositions drawn from the discussion of the findings.	71

CHAPTER 1 Introduction

Emerging and developing markets pose exciting and challenging opportunities for expanding and growing businesses as a result of a rapidly growing middle class and booming economies in Asia, Africa and Latin America (Pofeldt, 2014). Developments in these markets provide an opportunity for scholars to test established theoretical frameworks devised using the assumptions made for more advanced economies whilst developing novel theoretical lenses to examine new underlying features, such as inefficient markets, active government involvement in the economy, extensive business networking, and high uncertainty (Xu & Meyer, 2013). Xu and Meyer (2013) highlighted in their recent meta-analysis work examining strategy in emerging economies, the view that in order to do research related to spillovers into domestic markets from the presence and activities of Multinational Enterprises (MNEs) in emerging economies relevant to firm strategy, “the relevant questions for future research are, first, what strategies do local firms pursue to maximise the benefits they obtain from spillovers, and second, what strategies do MNEs pursue to minimise spillovers benefiting competitors, while supporting firms to whom they are vertically linked within a supply chain” (Xu & Meyer, 2013, p. 1339). The combination of the abovementioned research questions further suggests that there exists an underlying tension (Chen, Su, & Tsai, 2007; Chen & Miller, 2014) between local and foreign firms.

As carefully reviewed by Xu and Meyer (2013), the application of the competitive tension and dynamics framework (Chen et al., 2007; Chen & Miller, 2012) to the spillover concept was most recently conducted by Meyer and Sinani (2009), whereas the line of work followed by Chen and Miller (2012) applies only to the broader concept of competition and not to spillovers in emerging economies. The competitive dynamics combination with the Awareness-Motivation-Capability (AMC) framework approach by Meyer and Sinani (2009), places greater emphasis on the characteristics of the local firm and perception of the competitive tension, even suggesting future research be done to examine the characteristics of both local recipients and foreign investors.

The research proposed herein aims to conceptualise the dyadic tension between foreign investors and local recipients that arises over spillovers by seeking to answer the overall research question: **“How do local firms that are host-country government partners leverage the tension with MNEs to maximise the benefits of**

from spillovers?”

The narrowed scope of analysis of local firms that act as partners of government (which can vary in terms of the type of partnership and ties) stems from the recognised impact in the extant literature of local network-ties and political embeddedness (Lawton, McGuire, & Rajwani, 2013; Okhmatovskiy, 2010; Sun, Mellahi, & Thun, 2010; Sun, Mellahi, & Wright, 2012) in local firm performance – but not necessarily in benefiting from spillovers. This research will analyse the impact of this embeddedness in an emerging economy to the ability to maximise benefits from spillovers. Host-country government partners (HGPs) are defined herein as local firms that act on behalf of or with similar objectives to the government of the host country, to drive and enhance local spillovers. The spillovers referred to include job creation, technology and knowledge transfer, building supporting industries, increasing local industry competitiveness and retaining profits locally. Some MNEs act altruistically while others are more motivated by individual gain, but they have varying degrees of power to make an impact on public policy and influence government actions. The impact of local networks and political embeddedness in local firm performance (but not necessarily in obtaining spillovers) is widely recognised in the literature (Lawton et al., 2013; Okhmatovskiy, 2010; Sun et al., 2010; Sun et al., 2012). Host-country government partners (HGPs) are therefore a subset of local firms that are potential beneficiaries of spillovers.

1.1 Relevance and contributions of the study

This research contributes to the literature by providing a better understanding of the underlying dyadic tension (Chen & Miller, 2012; Meyer & Sinani, 2009) between MNEs that drive inward Foreign Direct Investment (FDI) and local recipients of potential spillovers from that FDI, in particular in the form of actions exerted by HGPs to drive spillovers, such as increasing demand for domestic jobs, technology and knowledge transfer, building of supporting industries, increasing local industry competitiveness and local retention of profits (Meyer, 2004; Meyer & Sinani, 2009; Xu & Meyer, 2013).

The topic proposed herein is of particular relevance to both foreign and domestic businesses and may enable them to better understand the underlying tension between local firms, HGPs, MNEs and government, which will assist each actor to devise effective strategies that better serve their desired outcomes. Moreover, the recent emergence of MNEs from emerging economies (Deng, 2012; Steenkamp, 2014; World Bank, 2013), such as China, India and Russia, creates competitive challenges for firms in more developed economies as they can build economies of scale at home and drive

manufacturing costs down, by leveraging their large domestic markets, and can become competitors to developed economy firms operating on their turf (Xu & Meyer, 2013). Entry into emerging markets is an attractive growth strategy for MNEs from developed economies due to low domestic growth rates at home and a rapidly growing middle class in emerging economies (Pofeldt, 2014).

As is interestingly argued by Meyer and Sinani (2009), institutions in emerging markets are often weak and “tend to be associated with less efficient markets, network-driven business practices, and protected niches for local firms” (Meyer & Sinani, 2009, p. 1081). This can be an advantage for local firms who can benefit from weak institutions and lack of protection with regard to issues, such as intellectual property, to better benefit from the spillover effect, including having access to competitive information from MNEs that might give local companies, or even foreign competitors, undue benefit in their business practices (Xu & Meyer, 2013). On the other hand, Meyer and Sinani (2009) warn that in the early stages of institutional development in emerging markets, local firms might be inadequately prepared for direct competition due to inertia and the resultant lack of organisational change and strategic flexibility. They also warn that institutional improvements from low levels of development typically eliminate local protectionism policies, allowing MNEs to properly exploit their competitive advantages, often undermining the development of local companies (Meyer & Sinani, 2009).

1.2 Scope and context of the research

The scope of this research was to examine natural resource-rich emerging and developing economies in which the presence of MNEs and inward FDI have the potential to generate spillovers to local firms. In particular, this research sought to understand how local firms that are host-country government partners exploit the tension between MNEs and their host governments to maximise benefits from spillovers, and also to understand the different mediating mechanisms of the tension, such as network bargaining influence and relational instead or rivalrous interaction, between MNEs and HGPs.

The specific context of Mozambique was selected given the recent discoveries of significant reserves of natural resources and the associated inward FDI to exploit these reserves (England, 2013; Roger, 2014; World Bank, 2014). Growth in Mozambique is also expected to accelerate in the wake of large foreign investment in infrastructure, mining and other sectors (IMF, 2014). The added benefit of this context was that it provided an opportunity to show how a stepwise transitory phase in economic activity could be associated with a stepwise entry of large amounts of FDI, and it is possible in

this context to observe the institutional shifts, changes to local legislation and activities of local firms that took place as a result of these shifts. In the specific case of Mozambique, for instance, a new petroleum law with local content requirements (LCR) was approved in 2014, which enforces the participation of local firms in the industry and the development of the domestic market (Bowker, 2014; Mucari, 2014).

Several country classifications exist with regard to their economical and institutional development with the most prominent stemming from large institutions such as the World Bank, the International Monetary Fund (IMF) and the United Nations (UN). For instance the IMF in its World Economic Outlook (WEO) report divides the world into two major groups: advanced economies and emerging and developing economies (IMF, 2014), with distinct underlying economic and institutional characteristics and real gross domestic product (GDP) growth rates as depicted in Figure 1. The latter group comprises all those economies (including Mozambique) that are not classified as advanced economies (which include the United States, Canada, Germany, France, and the United Kingdom). Emerging market and developing economies are further classified according to other analytical and financial criteria that reflect whether they are net creditor or net debtor economies, heavily indebted poor countries (HIPCs), or low-income developing countries (LIDCs). Within the latter group, Mozambique is classified as a HIPC, LIDC and net debtor economy. Other emerging economies such as Brazil, India, South Africa and Turkey are classified solely as net debtor economies and China and Russia as net creditor economies (IMF, 2014). Some countries are further classified by other factors, for example the BRICS, a bloc comprising Brazil, Russia, India, China, Russia and South Africa (IMF, 2014). Other organisations such as the UN classify Mozambique as a least developed country (LDC) because of its low per capita GDP, weak human assets and a high degree of economic vulnerability (UNCTAD, 2011).

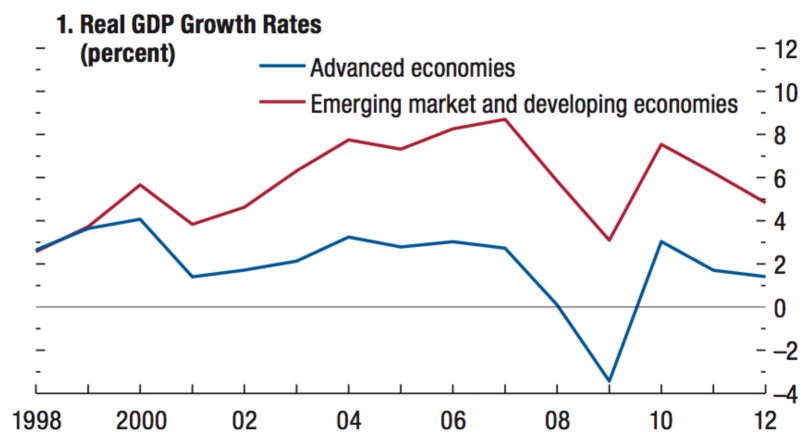


Figure 1 - Real GDP growth rates: Advanced economies vs. emerging market and developing economies. Source: (IMF, 2014)

Despite the different classifications available, which are typically not based on strict criteria and serve mostly the objective of facilitating analysis by providing a reasonably meaningful method of organising data (IMF, 2014), the research conducted herein considers valid the assumptions of Xu and Meyer (2013) of inefficient markets, active government involvement, extensive business networking, and high uncertainty associated with booming and above world-average growing economy of the underlying country context. The real GDP growth of Mozambique and the countries of the BRICS are compared below in Figure 2.

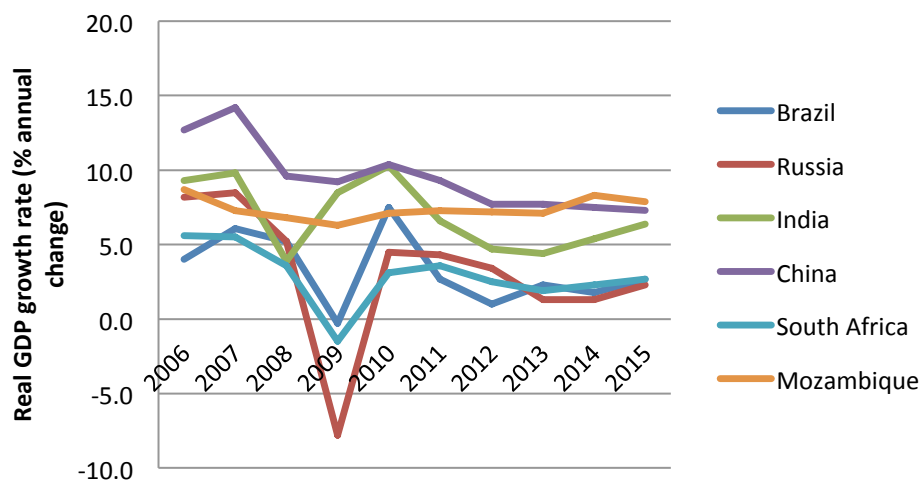


Figure 2 - Real GDP growth - BRICS (Brazil, Russia, India, China and South Africa) vs. Mozambique from 2006 to date and forecasted to 2015. Data Source: (IMF, 2014)

1.3 Dissertation structure

The remainder of this document is divided as follows: Chapter 2 presents a review of the relevant literature, building an argument using relevant research questions and propositions, which are summarised in Chapter 3. Chapter 4 details the proposed research design while Chapter 5 presents the research findings that emerged from the qualitative research proposal presented in the previous chapter. Outlining the main findings, Chapter 6 presents an in-depth discussion of the results, and finally, Chapter 7 draws the main conclusions of the study whilst summarising the contributions it will make to the literature, the implications it has for business managers and policy makers and the limitations of this study. It also provides recommendations for the directions future research should take. Appendices at the end provide additional information that has been used during the research process.

CHAPTER 2 Literature review

The most recent work within the scope of strategy research in emerging economies, has been carefully reviewed in a meta-analysis article by Xu and Meyer (2013). The article follows previously lines of research in the same area (Hoskisson, Eden, Lau, & Wright, 2000; Wright, Filatotchev, Hoskisson, & Peng, 2005). The legitimacy of specific lines of research into strategy within an emerging economy context is premised on the fact that emerging economies have intrinsic characteristics that differ from developed economies, a factor that affects the applicability of existing and long-standing theories specifically devised for the latter to emerging markets (Xu & Meyer, 2013). These intrinsic differences can be summarised as being the presence of a lack of transparency, which contributes to inefficient markets; heightened information asymmetries and higher monitoring and enforcement costs; the extent of government entities' role in the economy; the way network ties shape the interaction between economic actors; and the levels of risk and uncertainty associated with volatility in underlying economic, institutional and political factors (Xu & Meyer, 2013). The combination of these characteristics creates uncertainty and increased risk that can make it difficult for companies to make long-term strategic plans (Xu & Meyer, 2013).

From the myriad of conceptual perspectives that exist such as transaction cost theory (TCT), agency theory (AT), resource-based theory (RBT), and institutional theory (Hoskisson et al., 2000; Wright et al., 2005), institutional theory (IT) is recognised as one of the most solid foundations on which to build theories about strategy in emerging markets (Xu & Meyer, 2013). As a result, its concepts are regularly applied in order to allow an understanding of the actions and strategies of firms that enable them to fill institutional voids and overcome challenges caused by these voids (Santangelo & Meyer, 2011; Xu & Meyer, 2013). Recently, newly identified concepts have emerged that focus on, for example, learning and real options as well as relational and spillover perspectives (Xu & Meyer, 2013). The line of research proposed herein stems from the gap identified by Xu and Meyer (2013) in the understanding of the strategies that local firms use to maximise the benefits they obtain from potential spillovers and the strategies that "MNEs pursue to minimise spillovers benefiting competitors, while supporting firms to whom they are vertically linked within a supply chain" (Xu & Meyer, 2013, p. 1339). The research will highlight the potential existence of a competitive tension (Chen et al., 2007; Chen & Miller, 2012; Meyer & Sinani, 2009) between MNEs

and local firms with regard to the realisation of spillovers and their benefits or challenges.

As conceptual constructs to the problem at hand, Meyer and Sinani (2009), to analyse the realisation of potential spillovers, use the awareness-motivation-capabilities (AMC) framework together with the local firm perception of the competitive tension in order to examine local firms. Meyer and Sinani (2009) tend to focus mostly on the local firm characteristics, overlooking the MNEs' stakes in the underlying dyadic interaction, but call for future research to analyse the significant characteristics of both foreign and local firms. Recent work combining the AMC framework with the competitive dynamics framework can be found in Chen and Miller (2012). Their study looks at the broader concept competition between firms, not specifically at the issue of spillovers in emerging economies. The authors (Chen & Miller, 2012) further broadened the scope of the competitive dynamics framework in more recent work (Chen & Miller, 2014), from solely looking at directly competing firms to taking a broader stakeholder and relational competition perspective.

The underlying framework used to address the proposed overarching research question has its foundations in the spillover perspective but also combines the concepts of network-ties, political embeddedness, relational perspective, competitive dynamics and bargaining power, which are reviewed next as the building blocks of the overarching argument. Firstly, the spillover perspective is examined as the foundation block for this research in section 2.1 where the AMC framework plays a central role. The competitive tension and dynamics framework is shown to be combined with the AMC framework in section 2.2 and the relational perspective together with the concepts of network-ties and political embeddedness is added in section 2.3. Finally, section 2.4 and section 2.5 summarise the literature review and arguments about network bargaining power and the relational perspective, highlighting an alternative mechanism of mediating tensions via the linkage of the host country government and MNEs bargaining power concept.

2.1 Spillover perspective

The concept of spillover effects relates to the impact on local firms of inward FDI and the activities of foreign MNEs, with particular emphasis on the potential benefits that may arise from such interaction (Eden, 2009; Liu, Wang, & Wei, 2009; Meyer & Sinani, 2009). In terms of strategy research, the main focus is on firms that seek to benefit from these spillovers as a result of active strategies, rather than being passive beneficiaries (Xu & Meyer, 2013). These spillovers can also be characterised as

informal and involuntary transfers such as the ones that occur through labour market exchanges (hiring of workers from a better trained resource pool) and local firms copying technologies, processes and products of MNEs, either to remain competitive (reacting to competition) or simply by recognising, and wanting to replicate, improved efficiencies (Eden, 2009). Competition in the context of this research refers not only to competition in the market place, but broadly encompasses as well competition for extractable benefits and profits from inward FDI and local natural resources.

An important framework that has been applied to analyse the fit between local firms and the likelihood of getting benefits from the potential spillovers from MNEs is the awareness-motivation-capability (AMC) framework (Eden, 2009; Meyer & Sinani, 2009). In this framework, “awareness” refers to the capacity of local firms to identify the potential impact of a foreign entrant in its marketplace and the potential to learn from it. Limited interaction with managers of MNEs and a lack of similarity in operational behaviour tends to reduce local managers’ awareness of and ability to identify potential areas of spillover (Meyer & Sinani, 2009). The “motivation” term quantifies the underlying conditions, including incentives, which enable local firms to adapt to changing circumstances and to remain competitive. These incentives are influenced by the institutional attributes such as competition, market liberalisation and economic freedom (Meyer & Sinani, 2009).

Potential spillover beneficiaries also have to demonstrate “capability” to absorb any benefits that might accrue to them, particularly with regard to human capital at both the blue collar and managerial levels and also with regard to the efficiency of organisational structures (Eden, 2009; Meyer & Sinani, 2009). Interestingly, Meyer and Sinani (2009) make a clear distinction between potential spillover opportunities presented by foreign firms and the benefits from this realised by local companies, the extent of which is dependent on local firms’ ability to absorb and capitalise on such spillovers according to their ability to do so in terms of the AMC framework.

The potential spillovers and benefits may be inherited mainly through two types of linkages as carefully argued by Liu et al. (2009): horizontal and vertical linkages. Horizontal linkages involve interactions between firms that are competing in the same marketplace and where spillovers may take place when local firms copy technologies of MNEs to improve efficiencies, either by directly copying them, by hiring workers trained by such MNEs; or when local firms are forced into more efficient use of resources driven by increasing competition. Nonetheless, foreign entrants are aware of such potential developments and may take measures to counteract the potential spillover to competitors (Liu et al., 2009; Meyer & Sinani, 2009). The ability of local

firms to compete with MNEs is dependent on their level of competitiveness and ability to embark on a “catch-up” process in terms of technology (Liu et al., 2009), which also relates to the AMC framework (Eden, 2009).

Vertical linkages exist along the value or supply chain of an industry and include both backward and forward directionality. Backward linkages occur when foreign firms acquire goods and services whereas forward linkages exist when foreign firms sell goods and services to local firms (Liu et al., 2009). Nonetheless, as demonstrated by Liu et al. (2009), data in the context of Chinese manufacturing firms suggests that FDI generates positive vertical linkage spillover effects at both national and regional levels, whereas horizontal effects are positive on a local level but limited at a regional level. Interestingly, Liu et al. found that even though both state-owned enterprises (SOEs) and non-SOEs are hurt by competition from foreign firms in the same industries, SOEs do benefit more from vertical linkages with foreign firms. The authors (Liu et al., 2009) argue that this difference is due to greater capabilities, more resources and long-term government support. This long-term government support further suggests that such support and political network-ties might be a key factor and part of an overarching strategy to obtain increased benefits from foreign entrant MNE spillovers in a local emerging economy.

As mentioned previously herein, the main focus in strategy research about spillovers in emerging economies is on firms that actively seek to benefit from these spillovers (Xu & Meyer, 2013). This can be characterised as informal and involuntary transfers that occur through labour market exchanges and local firms copying technologies, processes, and products of MNEs (Eden, 2009). On the other hand, “MNEs are profit maximising, and thus naturally are not interested in creating benefits for others without being paid for it” (Meyer, 2004, p. 260) and often also seek low-cost labour and natural resources in low-income developing economies with the aim of serving export markets (Meyer & Sinani, 2009). This contrasting view of the spillover concept leads to the first research proposition as to the elementary causes of the previously mentioned tension:

Research Proposition 1. A tension exists between MNEs and HGPs because of dyadic contrasting objectives: a) MNEs seek to maximise profits, whereas b) HGPs seek local benefits from spillovers.

Furthermore Xu and Meyer (2013) identified a gap in the literature with regard to the understanding of strategies used by local firms to maximise the benefits they obtain from potential spillovers leading to the first overarching open-ended research question:

Research Question 1. How do local firms that are host-country government partners leverage the tension with MNEs to maximise benefits from spillovers?

Other interesting perspectives in the spillovers perspective relate to studies of agglomeration (for example Silicon Valley in California) and geographical clustering of firms (Eden, 2009; Tan & Meyer, 2011; Xu & Meyer, 2013). Tan and Meyer (2011) further suggest that wholly-owned foreign entrants tend to agglomerate in clusters based on country-of-origin, commonality of cultural background and language to build local transaction networks and gain access to knowledge spillovers.

2.2 Competitive dynamics/tension framework perspective

Xu and Meyer (2013) note in their meta-analysis article that the application of the competitive tension and dynamics framework (Chen et al., 2007; Chen & Miller, 2012) to the spillover concept was most recently conducted by Meyer and Sinani (2009) whereas the line of work followed by Chen et al. (2007) and Chen and Miller (2012) applies only to the broader concept of competition and not specifically to spillovers in emerging economies. Tension in a competitive context is a dyadic construct between two firms that describes the state of latent strain between two firms that anticipate the tipping point from a static interaction to a dynamic set of competitive actions between the two (Chen et al., 2007; Chen & Miller, 2012). Moreover, it can be conceived as an energy storage that builds up from previous interactions and forces and once this build-up reaches a certain threshold, it triggers rivalry (Chen et al., 2007; Chen & Miller, 2012). At its core, the competitive tension and dynamics framework also uses the AMC constructs to analyse the underlying tension and evaluate the likelihood of firms engaging in rivalrous competitive behaviour (Chen et al., 2007; Chen & Miller, 2012).

The competitive dynamics combination with the AMC framework (Chen et al., 2007; Chen & Miller, 2012) approach to spillovers in emerging economies by Meyer and Sinani (2009), places greater emphasis on the local firm characteristics and perception of the competitive tension, even suggesting future research looks at the characteristics of both local recipients and foreign investors. Even though Meyer and Sinani (2009) suggest that future work analyses the characteristics of both the foreign and local firm from a competitive dynamics lens to enact spillovers, they analyse mostly the perception of the competitive tension from the local firm perspective, together with its characteristics (using the AMC framework) and the likelihood of obtaining benefits from spillovers.

Meyer and Sinani (2009) find a U-shaped curvilinear relationship between the spillover

benefits and the level of economic development of the host country, in particular positively associated with the level of per capita income, human capital (education, skills, learning processes through research and development – a major foundation of firm's capability to react to foreign entry) and institutional development (Meyer & Sinani, 2009). As illustrated in Figure 3, in lower-income economies, foreign and local firms are likely to compete in different industry segments and a higher technological gap is prone to demonstration effects that enhance spillover benefits (Meyer & Sinani, 2009).

In higher-income economies, local firms are more experienced in dealing with aggressive competition and the technology gap is negligible. Thus strong local firms are more aware and capable of reacting strategically, thus enjoying increased spillover benefits (Meyer & Sinani, 2009). In middle-income economies, local firms are crowded out owing to switching costs, barriers to exit and their lack of capability to react to competitors, even if they are aware of competition and potential spillovers (Meyer & Sinani, 2009). Nonetheless, the work presented in (Meyer & Sinani, 2009) captures more horizontal than vertical spillovers given the competitive nature of their analysis framework.

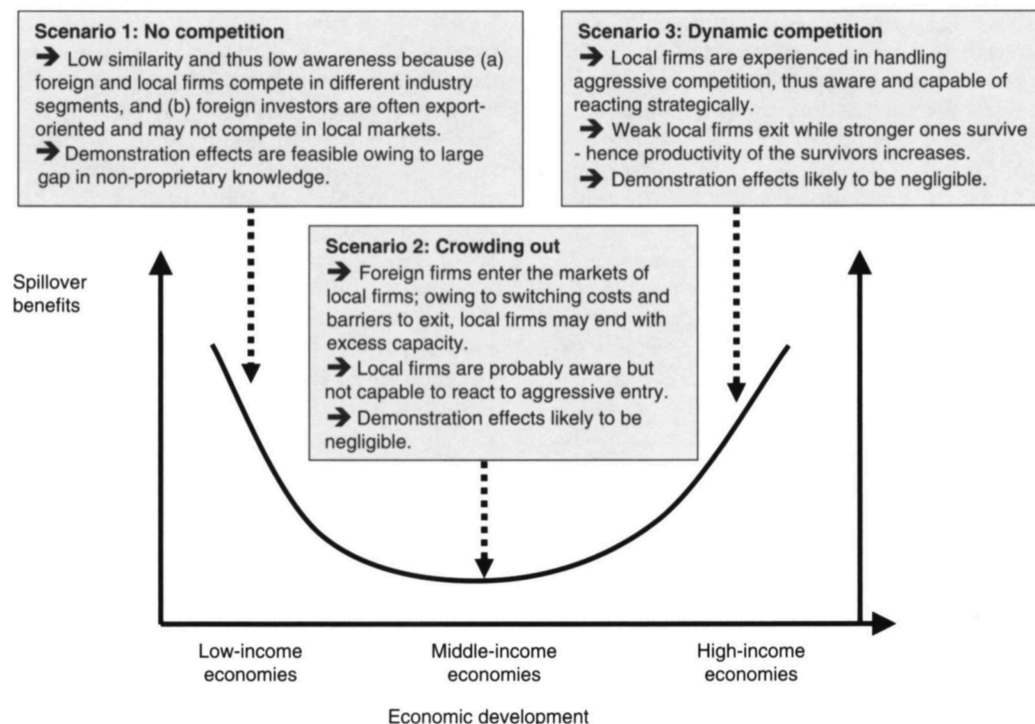


Figure 3 - Spillover benefits likelihood depending on the economic development of the host-country. Source: Meyer and Sinani, 2009

Chen and Miller (2012) build upon the AMC and competitive tension/dynamics limitation of focus in the same industry. They review the literature and propose new ideas in their meta-analysis paper (Chen & Miller, 2012), with powerful constructs

pertaining to the issue at hand, such as an analysis of the tension asymmetry, the market-commonality & resource-similarity (MC/RS) framework and irreversibility, among others (Chen & Miller, 2012). It is unlikely that two firms on opposite sides of the dyadic competitive dynamics will perceive the interaction equally, thus resulting in an asymmetric view of the competitive tension. Moreover, as interestingly noted by Chen and Miller (2012), “the greater a rival’s market commonality with a focal firm, the less motivated that rival would be to initiate an attack against the firm for fear of retaliation across multiple markets, and the greater a rival’s resource similarity with an attacking firm, the greater would be its ability to respond to the attacker” (Chen & Miller, 2012, p. 150).

2.3 Network-ties, political embeddedness and relational perspectives

The relational perspective is also overviewed by Xu and Meyer (2013) who detail the particular importance of establishing relationships in emerging economies, mainly due to the underlying institutional framework, that is, the existence of institutional voids not readily found in more developed economies. Recently, Eapen (2012) brought social structure into the spillover perspective context and extended the AMC framework, to specifically better characterise the dependency of a firm’s capability to absorb spillovers on the social structures it is embedded in with foreign firms (not necessarily in partnerships with government). Eapen (2012) clearly distinguishes between the search and transfer phases of the spillover process, and suggests that during the search phase, sparse network structures are more beneficial, whereas the transfer of spillovers is better facilitated by denser and more cohesive networks. If affect-based ties are sufficient for information sharing during the search phase, reciprocal benefits are mostly sought during the transfer phase (Eapen, 2012). These reciprocal benefits are not necessarily of a technical nature, and can include local market knowledge, access to distribution assets and network and political contacts (Eapen, 2012). The literature recognises that institutional voids make valuable political connections in emerging economies a critical element to business success (Lawton et al., 2013; Sheng, Zhou, & Li, 2011; Sun et al., 2010; Sun et al., 2012).

Board ties to government and former government officials also facilitate access to resources controlled by government (Okhmatovskiy, 2010). These “former government officials on the boards of directors can be a source of legitimacy and valuable advice regarding government policies, also providing an opportunity to influence these policies by facilitating communication with policymakers” (Okhmatovskiy, 2010, p. 1025). The degree of political embeddedness comes, nonetheless, with a certain risk to the firm as

these strong ties to government typically constrain a company's freedom to act in certain ways. Thus these costs of board ties to government need to be balanced (Okhmatovskiy, 2010).

Okhmatovskiy (2010) notes that state assets that government is reluctant to privatise are often managed by SOEs in emerging economies. These organisations often have a significant degree of autonomy, operating commercially even though they are mandated to protect the interests of the state. On the other hand, firms with ties to SOEs are indirectly connected to government, gaining access to state-owned resources (which can be translated in exclusive supplier-buyer agreements, concession agreements and licenses-to-trade) but avoiding costs associated with the government's interventions on issues of corporate governance and strategic actions (Okhmatovskiy, 2010). Furthermore, Okhmatovskiy (2010) finds that better firm performance and profitability is found in firms with ties to SOEs, while no significant differences are found in firms with direct ties to government. Interestingly enough and as reviewed previously herein, SOEs have been found to benefit more from vertical spillovers than non-SOEs in China due to higher capabilities, more resources and long-term government support (Liu et al., 2009).

Historically, foreign entrant firms also tend to embed themselves in the local country political context and networks through organisational level connections, such as establishing strategic alliances and joint ventures (JVs) with local SOEs, or developing dense ties to a whole set of the upstream and downstream politically connected bodies, (including local suppliers, domestic distributors and institutional customers) particularly because MNEs and foreign entrants need to overcome the liability of being foreign – a concept known in the literature as *liability-of-foreignness* (Sun et al., 2010; Zaheer, 1995). Other examples of increased *liability-of-foreignness* for MNEs include indigenisation policies implemented in certain emerging markets, such as the Black Economic Empowerment (BEE) policy in South Africa (Mebratie & Bedi, 2013), in which MNEs are judged for levels of compliance in the professional relationships they establish with compliant local firms. Nonetheless, it is important to remark that longitudinal studies presented in Danis, Chiaburu, and Lyles (2009) and Sun et al. (2010) suggest a decline over time in the value of political connections by MNEs in a stable emerging economy as it matures (Xu & Meyer, 2013). Moreover, strong political connections may have an even more significant negative impact during periods of political upheaval (Sun et al., 2010), calling for strategies that buffer firms against less favourable political environments (Lawton et al., 2013).

As pointed out by Danis et al. (2009), in the early stages of development in emerging

economies, owing to large institutional voids, local managers rely more on informal networks and personal contacts to achieve organisational goals. Influential and political connections are particularly important in bureaucratic and excessively regulated environments with centralised administrative structures, characteristic of the early phases of institutional transitions. Nonetheless, as institutions in emerging economies evolve and institutional voids are filled, transaction costs diminish and the strategic focus of managers shifts from managerial networking to market-based strategies (Danis et al., 2009). Nonetheless, the concept of political embeddedness in the literature reviewed thus far (Danis et al., 2009; Lawton et al., 2013; Okhmatovskiy, 2010) is more related to the broader objectives of increasing firm performance than to active strategies that mediate spillovers.

The partnerships between local firms and the host-country government can be defined based on the degree of formality they are established: formal – with SOEs or government directly; and informal – individuals who are embedded in the host country and have substantial networks. Building on the literature reviewed and arguments presented thus far and seeking to identify in which type of partnership with government (formal or informal) is the tension and potential spillovers more or less potentiated, allows for drawing the following research question:

Research Question 2. Where is the posited tension and potential benefits from spillovers greater: in formal or informal partnerships with government?

Recent work by Chen and Miller (2014) reconceptualises competitive dynamics with a multidimensional conceptual framework where the relational perspective and relational competition are brought together with the AMC framework. Growing stakeholder pressures to adopt sustainable business practices in a more globalised world, have moved from an environment of rivalry and competition to a reshaped, less hostile business environment, often with interaction with and mediation from non-competitors outside their sectors (Chen & Miller, 2014). Nonetheless, it has been noted that certain MNEs transfer socially irresponsible practices from their home countries to their subsidiaries in other countries, due to mounting stakeholder pressures at home (Surroca, Tribó, & Zahra, 2013).

It is further claimed by Chen and Miller (2014) that the prevalence of combative language in the literature such as “attack”, “retaliation” and “dethronement” has greatly restricted the scope of research in the field to head-on competition and overlooked new constructs of stakeholder theory and competition-cooperation perspectives in which a

lift-all-boats view or win-win scenarios for all stakeholders are sought in a longer-term sustainable business view (Chen & Miller, 2014). As is interestingly argued by Chen and Miller (2014), gaining advantage is not the only desired outcome of all actors and outcomes sought may go beyond economic gain. The competition-cooperation view for instance, argues that many firms are willing to cooperate with their rivals as long as both benefit eventually (Chen & Miller, 2014).

This relational interaction, in which relations and ties are an essential driving force, led to the concept of relational competition, which can also be coupled to the AMC framework (Chen & Miller, 2014). In their analysis, Chen and Miller (2014) posit that firms which engage in relational competition tend to show performance improvements in the long run compared to firms that engage in rivalrous competition, but only when they apply the relational competition practices consistently over time and cross-dimensionally. Moreover, it is posited that connected to “awareness”, flat organisational structures with distributed information processes, as opposed to more centralised and bureaucratic structures, are more likely to have the necessary knowledge to engage in relational competition (Chen & Miller, 2014). Related to “awareness”, it is argued by Meyer and Sinani (2009) that in lower-income emerging economies, foreign investors tend to utilise more capital-intensive methods of production compared to local firms. This, together with limited interaction between managers of both local and foreign firms, reduces local managers awareness of the potential impact of FDI on their businesses (Meyer & Sinani, 2009) and is also likely to affect their awareness of the potential benefits of relational, rather than rivalrous competition.

With regard to “motivation”, firms whose owners and top managers are more stakeholder oriented and adopt a long-term perspective are more likely to engage in relational competition, as opposed to firms that have a shorter-term view and focus on immediate financial returns. This is also related to the level of development of corporate governance of the foreign firm (Chen & Miller, 2014). From a “capabilities” perspective, Chen and Miller (2014) posit that firms that invest more in physical and human capital to develop core capabilities (which make them perceived to be more attractive partners) are more likely to have the capability to engage in relational competition. Interestingly enough, the motivation term in the relational competition presented can be integrated with the motivation component in the AMC framework in the spillover perspective (Eden, 2009; Meyer & Sinani, 2009) presented in section 2.1 herein. If a firm is motivated to obtain benefits from spillovers it might be more motivated to engage in a relational competition interaction with MNEs, which has the potential of decreasing the tension between the two, as opposed to engaging in a

rivalrous competition that can increase tensions. This argument leads to the following research proposition:

Research Proposition 3 The tension between MNEs and HGPs is mediated by the awareness-motivation-capabilities of both firms to engage in relational, rather than transactional or rivalrous, interaction. If firms engage this way, it lessens the tension and enhances the benefits from spillovers.

On another interesting note, Chen and Miller (2014) verify that western MNEs are more prone to engaging in rivalrous competition owing to a more individualist culture than firms from the east, which are more likely to engage in relational competition because of their collectivist culture.

2.4 Network bargaining power

An important construct to the argument being proposed herein is that of bargaining power, in particular network bargaining power (Nebus & Rufin, 2010). From a broad perspective, the bargaining power that a MNE holds over a host country may include MNE resources or firm specific assets that are valued by the host country government such as technology, export market access and potential, specialised skills and skilled labour, training of the local labour pool, increasing employment locally, and access to foreign capital. The bargaining power that the host country government may exert over an MNE typically includes natural resources that the multinational values, market size and growth prospects, access to the local labour pool, incentives and access to licenses-to-trade (Fagre & Jr., 1982; J. Li, Newenham-Kahindi, Shapiro, & Chen, 2013; Nebus & Rufin, 2010).

The traditional bargaining model between host-countries and MNEs (Fagre & Jr., 1982) is considered to have become obsolete and new concepts such as the two-tier bargaining power model have emerged (Ramamurti, 2001). In this model, a *tier-1* negotiation between the home-country and host-country governments occurs on a macro-economic level and later a *tier-2* micro-economic level negotiation follows between the host country government and the MNE (J. Li et al., 2013; Ramamurti, 2001). More recently, the modified one-tier bargaining power model has been shown to apply to Chinese outward FDI in developing countries (in particular in natural resource-rich developing economies) in which the Chinese government negotiates deals with host country governments, typically representing a collective interest of Chinese natural resources MNEs, whilst securing access to supply of these natural resources in the

future (J. Li et al., 2013). Often no *tier-2* negotiations occur between Chinese MNEs and host country governments but these MNEs act as executors and fulfil commitments achieved during *tier-1* negotiations (J. Li et al., 2013). As convincingly argued by J. Li et al. (2013), there exists a home-country variability on the application of the model as there are significant differences between Chinese and western governments in applying the bargaining power model. Western governments engage in a two-tier approach, creating a friendly investment environment for all home-country firms rather seeking opportunities for specific firms, whereas Chinese governments procure deals for specific Chinese natural resources firms besides also creating a friendly investment environment for all Chinese firms (J. Li et al., 2013).

Nonetheless, in order to succeed, MNEs need to bargain with host country governments on myriad variables and in particular over the division of resource rents (J. Li et al., 2013). The traditional bargaining model suggests that MNEs leverage on their firm-specific advantages (J. Li et al., 2013), typically based on intangible assets such as brands and technology, that also allow them to overcome the *liability-of-foreignness* (Sun et al., 2010; Meyer & Sinani, 2009; Zaheer, 1995) and have also been noted to employ more capital-intensive methods of production than local firms in developing countries (Meyer & Sinani, 2009).

An interesting development with regard to the bargaining power model is outlined in Nebus and Rufin (2010) with the concept of network bargaining power being an important construct to the argument being proposed herein as it creates an alternative tension mediating linkage between HGPs and MNEs – the ability to influence bargaining power of government in the MNE and host country relationship. The model presented by Nebus and Rufin (2010) extends the scope of players and actors (home and host country governments and MNEs) in the more traditional bargaining power models (Fagre & Jr., 1982; J. Li et al., 2013; Ramamurti, 2001) to include non-public actors, such as non-governmental organisations (NGOs), local firms and industry associations (Nebus & Rufin, 2010). In this context, actors are interconnected with different degrees of connectedness and prominence in a network and can make use of knowledge power to influence other actors on bargaining outcomes, leveraging favourable relationships with more powerful actors (Nebus & Rufin, 2010).

Nebus and Rufin (2010) argue that bargaining is power driven in the sense that actors in the network use their power in support of their own issue outcome preferences. In their construct, **bargaining influence** stems from three factors (Nebus & Rufin, 2010):

- i) **Basis of power** – the resources that an actor can convert or mobilise into

influencing another actor, always in comparison to the resources of other actors in the network, and includes an actor's economic, legal, knowledge and political power (that form the relational power antecedents);

- ii)* **Prominence of an actor in the network** – or its position in the network representing its connectedness in an interconnected network of bargaining actors; a tie between actors in the network can be characterised by the magnitude of the power, its directionality, the basis of power and whether this power is either a constraint or support. Moreover prominence captures the indirect power that an actor may have over another actor that it is not directly connected to, by influencing its overall bargaining position if motivated to do so;
- iii)* **Motivation to use power** – the motivation that an actor in the network might have to mobilise and exert its power to influence the bargaining outcome in an issue area according to its preferences;

To summarise, an actor's bargaining influence is associated with that actor's basis of power, its prominence in the network, moderated by that actor's motivation to influence the bargaining outcome and devoting resources to it (Nebus & Rufin, 2010). Also noteworthy is the argument that if an actor believes that the bargaining outcome of a particular issue was already likely to be in line with its preference or objective, regardless of its intervention, it might not be motivated to mobilise its resources to influence the outcome of that particular issue, despite the importance of the outcome (Nebus & Rufin, 2010). Interestingly, the motivation to influence a network bargaining outcome (Nebus & Rufin, 2010) can be integrated with the motivation component of the AMC framework in the spillover perspective (Eden, 2009; Meyer & Sinani, 2009) and in the relational competition (Chen & Miller, 2014). In this regard, it can be inferred that if a firm is aware of the potential benefits from spillovers and motivated to capture those benefits, this spillover motivation may generate bargaining power motivation to mobilise its resources to align the **HGPs** ↔ **Host country government** ↔ **MNEs** network bargaining outcome with more favourable government policies that generate more benefits from spillovers locally and to themselves.

As interestingly argued by J. Li et al. (2013), often MNEs do not rely solely on their competitive and firm-specific advantages to secure investment deals, but also on promises to develop local communities, with more advantageous corporate social responsibility (CSR) agreements to help develop local communities, employment, education and training of locally recruited staff. These negotiated outcomes can be seen to be part of the bargaining power between the MNEs and host country

government.

Other policies that may emerge from a bargaining power negotiation can include those that drive increased local employment and indigenisation (Mebratie & Bedi, 2013). Chen and Miller (2014) also argue that although the relational view of competitive dynamics and CSR are consistent with their stakeholder orientation, there are fundamental differences. The relational competitive view focuses only on interactions in the market place, rather than the entire scope of firm behaviour, particularly on the stakeholder areas on which CSR focuses, being built on a utilitarian rationale (Chen & Miller, 2014). On the other hand, it has been noted that certain MNEs transfer socially irresponsible practices from their home countries to their subsidiaries in other countries due to mounting stakeholder pressures in their home countries (Surroca et al., 2013), and to which host country governments must be alert. The argument presented thus far leads to the final research proposition:

Research Proposition 4. The tension between MNEs and HGPs is mediated by the network bargaining power that HGPs and MNEs have in the **HGPs ↔ Host country government ↔ MNEs** network and the motivation that HGPs have to use their bargaining influence to influence outcomes in government policy that enhance benefits from spillovers.

In order to understand the directionality of the effect from the above Research Proposition 4, the final research question is:

Research Question 3. How does the use of bargaining influence affect (increase or decrease) the tension between MNEs and HGPs and benefits obtained from spillovers to local firms?

2.5 Summary

This chapter presented a critical review of the extant literature, relevant for the research topic proposed herein, which aims to study the underlying causes for the existence of tension between MNEs and local firms in host countries, in particular that experienced by host-country government partners (HGPs). The literature review posits that a tension exists between MNEs and HGPs with regard to FDI spillovers and the benefits that local firms might obtain, in particular potential competitors of the MNEs. It

also posited that this tension is caused by the profit-maximising orientation of MNEs and spillover benefits maximising objectives of local firms in this dyadic relationship. During the argument build-up, it was posited in a new proposed conceptual framework that this tension is mediated by the awareness-motivation-capability construct of both firms to engage in a relational competitive interaction and is also affected by the bargaining influence that all intervening actors have in the networked bargaining power model, as depicted in Figure 4.

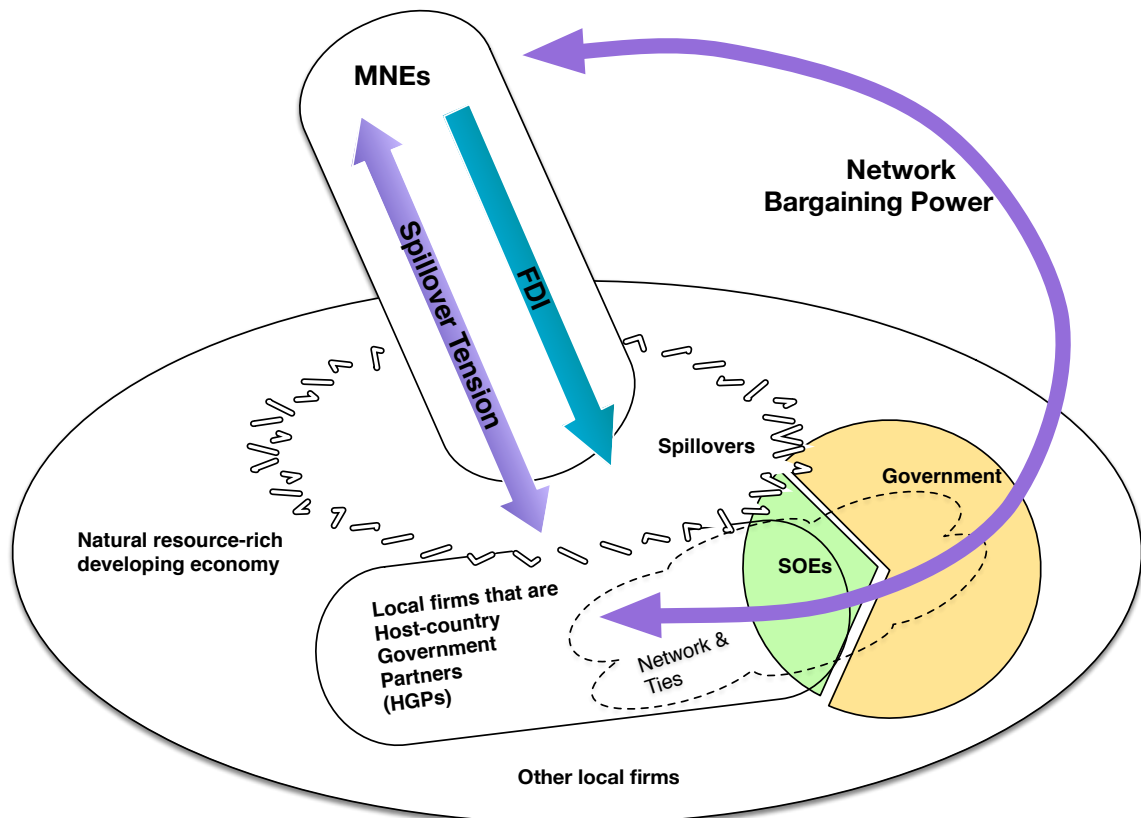


Figure 4 - Overview of the spillover-tension topology applied in the research proposed herein. Host-country government partners (HGPs) represent local firms that are connected to government through formal or informal partnerships and network-ties, which allows them to exert influence over the network bargaining power and mediate in the tension between MNEs and local firms. Source: Author's own elaboration, based on the literature.

With regard to the relational competitive mediation, it was further posited that if the firms interact relationally rather than as rivals, the tension would be less and spillover benefits enhanced. On the other side, in the network bargaining model mediation linkage, it was proposed that the use of bargaining influence from either actor (HGPs or MNEs) to affect (increase or decrease) benefits from spillovers would influence the level of both the tension between MNEs and HGPs and the realised benefits to local firms from spillovers. The specific directionality (increasing or decreasing) of the abovementioned effect on the tension and benefits from spillovers will be answered

through the research questions.

The set of research questions and propositions derived in this chapter will be succinctly summarised in Chapter 3 and tested using the research design outlined in Chapter 4, with the results and findings presented in Chapter 5 and discussed in depth in Chapter 6.

CHAPTER 3 Research questions and propositions

This chapter succinctly summarises the research questions and propositions that were derived in the critical literature review presented in Chapter 2. The following research propositions and questions were posited from the review:

Research Proposition 1. A tension exists between MNEs and HGPs because of dyadic contrasting objectives: a) MNEs seek to maximise profits, whereas b) HGPs seek local benefits from spillovers.

Research Question 1. How do local firms that are host-country government partners leverage the tension with MNEs to maximise benefits from spillovers?

Research Question 2. Where is the posited tension and potential benefits from spillovers greater: in formal or informal partnerships with government?

Research Proposition 3. The tension between MNEs and HGPs is mediated by the awareness-motivation-capabilities of both firms to engage in relational, rather than transactional or rivalrous, interaction. If firms engage this way, it lessens the tension and enhances the benefits from spillovers.

Research Proposition 4. The tension between MNEs and HGPs is mediated by the network bargaining power that HGPs and MNEs have in the HGPs ↔ Host country government ↔ MNEs network and the motivation that HGPs have to use their bargaining influence to influence outcomes in government policy that enhance benefits from spillovers.

Research Question 3. How does the use of bargaining influence affect (increase or decrease) the tension between MNEs and HGPs and benefits obtained from spillovers to local firms?

CHAPTER 4 Research methodology

In order to conduct the research described herein and answer the research question and test the research propositions presented in Chapter 3, while deriving a new theoretical perspective to the mediating linkages of spillovers between MNEs and HGPs, the research process used a combination of both a deductive and an inductive approach coupled to a multiple case study strategy (Saunders & Lewis, 2012). The proposed research design, described in this chapter, is presented below in Section 4.1 and the remainder of the chapter subsequently describes the scope, universe, population and unit of analysis, sampling and data collection methods, data analysis process and limitations of the research design.

4.1 Research design

4.1.1 Research philosophy

Even though the author of this report, given his engineering background, displays some strong traces of positivism – a research philosophy that stems from physical and natural sciences, employing structured methods that facilitate law-like generalisations (Saunders & Lewis, 2012) – the main philosophy adopted by the author from the beginning of the research process is best characterised by pragmatism. The pragmatism philosophy argues that the most important determinants in the research method adopted are the research questions and objectives rather than any choice of specific testing methods (Saunders & Lewis, 2012). In this regard, the author took into consideration that the literature review presented in Chapter 2 and the propositions posited in Chapter 3 identified a new conceptual framework that required an exploratory study, the design of which is outlined in this section, before a more descriptive quantitative study can be conducted in the future.

4.1.2 Research approach

The literature review in Chapter 2 yielded a set of theoretical propositions and a new conceptual framework in a deductive approach, which combines two sets of theories – relational competitive dynamics and network bargaining power – as mediating mechanisms in the tension between MNEs and local firms. This new set of propositions needed to be tested by the research design proposed herein, and as such, the

research process was initiated by a deductive approach. It was anticipated that the collected in-depth interview data would shed new light on the underlying concepts and mechanisms, requiring an adaptation and evolution of the theoretical lenses used. Thus, the research approach proposed herein was a combination of both deductive and inductive approaches focused on new theory building rather than purely testing existing theory.

4.1.3 Type of study

Saunders and Lewis (2012) define an exploratory study as research that aims to seek new insights, ask new questions and to assess topics in a new light. The deductive approach conducted in the beginning of the research process described herein posited research propositions and questions in a new conceptual framework that render an exploratory study seeking new insights with in-depth interviews, before a more descriptive quantitative study can be conducted (Saunders & Lewis, 2012). Although the research propositions in Chapter 2 could be tested using a quantitative survey, such a study would have the potential to overlook new insights that could rather be gathered through in-depth interviews and open-ended questions. Also noteworthy is the view that, given the sensitive nature of the topic at hand, the alternative use of a quantitative survey, typically used in descriptive type of studies, would have the potential to yield low response rates or not be able to capture sensitive and interactive data that can only be gathered in more personal and intimate one-on-one interviews.

4.1.4 Research strategy

Saunders and Lewis (2012) interestingly argue that although there are critics of the case study strategy, “a well-designed and skilfully executed study of real-life issues will yield insights not possible in more descriptive strategies” (Saunders & Lewis, 2012, p. 117). The strategy employed in this research is based on a study of multiple cases, which is one of the most robust and emergent strategies for theory building as is interestingly argued by Eisenhardt and Graebner (2007). They argue that the case studies represent variability in the underlying context (for instance, as in the case herein: formal HGPs, informal HGPs and MNEs) and provide rich insights into the underlying phenomenon. As described in section 4.5, the data collection method includes sampling technique and sample size. Approximately one hour in-depth interviews with two executives from each case were conducted. In the research design described herein, the author also conducted a within and across case analysis to recognise patterns of relationships among constructs (Eisenhardt, 1989; Eisenhardt & Graebner, 2007).

4.1.5 Time dimension

Given the limited time resources for the research presented herein, the time dimension of the research design was cross-sectional, which is defined by Saunders and Lewis (2012) as the study of a particular topic at a single point in time, often known as a 'snapshot', as opposed to longitudinal studies that study a particular topic and its evolution over time (Saunders & Lewis, 2012).

4.2 Research scope

The scope of this research was natural resource-rich emerging or developing economies, in which the presence of MNEs and inward FDI have the potential to generate spillovers to local firms. In particular, this research sought to understand how local firms that are host-country government partners leverage on the tension with MNEs and their partnership with government to maximise benefits from spillovers, and also to understand the different mediating mechanisms of the tension between MNEs and HGPs. The specific context of Mozambique was selected given the recent discoveries of large gas and coal reserves, which have sparked significant FDI inflows (England, 2013; Roger, 2014; World Bank, 2014).

The added value that this context yielded was that a large stepwise transitory phase in economic activity could be associated with a stepwise entry of large amounts of FDI, and it was possible to observe several institutional shifts, adaptations in local legislation and activities of local firms. As interestingly argued by Meyer and Sinani (2009), weak institutions, which can often be observed in early stages of development, "tend to be associated with less efficient markets, network-driven business practices, and protected niches for local firms" (Meyer & Sinani, 2009, p. 1081). As a consequence, local firms can thus leverage such business practices and weak intellectual property protection to obtain spillover benefits and knowledge, which foreign firms could otherwise protect from unwanted dissemination (Meyer & Sinani, 2009), with the potential of benefiting local and future global competitors (Xu & Meyer, 2013). On the other hand, Meyer and Sinani (2009) warn that in early stages of institutional development, local firms might be inadequately prepared for direct competition due to inertia and resistance to organisational change and strategic flexibility. In addition, institutional improvements from low levels of development typically eliminate local protectionism policies, allowing MNEs to properly exploit their competitive advantages and supersede local firms' development.

4.3 Universe and population

The universe and population that allowed for acquiring in-depth knowledge into the overall research question and propositions at hand comprised:

- HGPs with formal partnerships with government – for instance firms with board-ties to government and SOEs;
- HGPs with informal partnerships with government – for instance firms endowed with individuals that have extensive networks and indirect ties to government;
- MNEs and their subsidiaries in the host-country.

4.4 Unit of analysis

The unit of analysis was the firm – both local and foreign – and its strategic actions. Nonetheless it is important to note that top managers typically devise the strategy of firms, but these are also communicated to and observable by other managers in the middle management of such firms.

4.5 Data collection

4.5.1 Sampling technique

With the objective of theory building, as previously highlighted, the sampling technique employed herein was theoretical sampling (Eisenhardt & Graebner, 2007). Theoretical sampling means that cases are selected based on their suitability to provide better insights into the topic and better illuminate the relationships and logic between the variables and constructs under study (Eisenhardt & Graebner, 2007), rather than using probabilistic sampling techniques that would provide poor data. It also allowed for highlighting similarities and differences across cases that enrich the theory building with more generalizable and replicable concepts (Eisenhardt & Graebner, 2007). Coupled to theoretical sampling, there was also a portion of purposive sampling (Saunders & Lewis, 2012) as the researcher used his judgment to select cases and interview participants that would provide better insight into the research questions and test the posited research propositions.

4.5.2 Sample size

Eisenhardt (1989) interestingly argues that “while there is no ideal number of cases, a number between four and ten cases usually works well. With fewer than four cases, it is often difficult to generate theory with much complexity, and its empirical grounding is likely to be unconvincing” (Eisenhardt, 1989, p. 545). Eisenhardt (1989) further adds

there exists an inherent breadth-depth trade-off coupled to time constraints for conducting the research but, nonetheless, that with more than ten cases it can quickly get difficult to cope with the growing complexity and volume of the collected data. Taking into consideration the above and the theoretical sampling concept described previously to generate variability in the cases, based on the underlying distinctive factors that distinguish each potential case – formal HGPs, informal or private HGPs and MNEs – a total of six cases were used comprised as follows:

- Two cases of local firms with **formal** partnerships (local government-controlled firms or SOEs) with government;
- Two cases of local firms with **informal** partnerships (private firms but highly connected) with government;
- Two cases of foreign MNEs.

Two managers from each of the cases were interviewed with the objective of mitigating subject bias (Eisenhardt & Graebner, 2007). During the interviews, an additional actor emerged as having a pivotal role in the concepts described herein, being a business association comprising local and foreign firms. The association gives its members a direct linkage to government to discuss pressing issues on the development of the economy. Therefore two additional interviews with directors of this business association were conducted. This yielded a total number of 14 approximately one-hour in-depth interviews. The details of each case and each interview are briefly summarised below in Table 1. Data saturation (Eisenhardt, 1989; Saunders & Lewis, 2012) was successfully achieved with the abovementioned number of interviewees.

4.5.3 Design

Saunders and Lewis (2012) argue that semi-structured interviews are appropriate for exploratory research in which the researcher has a predetermined list of topics and questions to address in an interview. The order of the questions may vary depending on the participant's answers, some might be avoided because of a lack of expertise by a specific participant and additional questions may be asked to further explore a subject in depth (Saunders & Lewis, 2012). The data collection method proposed herein used semi-structured interviews based on the interview guide presented in Appendix A. At the beginning of the interview, each participant was requested to read and sign the consent form presented in Appendix B if they agreed to the interview. All participants agreed to participate in the research and signed the forms. As per the consent form, all data was collected and stored using the codes provided in Table 1 below and without any other identifier that could jeopardise the confidentiality of the

interviewees.

Table 1 - Cases summary and interviewees information and characterisation

Type	Industry	Comments	Code	Position	Nationality
Local government-controlled / Formal HGP	Electric Power	Partner of FF1 in a new gas-fired power plant in Mozambique	LG1A	Director (undisclosed for confidentiality purposes)	Local
			LG1B	Director (undisclosed for confidentiality purposes)	Local
Local government-controlled / Formal HGP	Oil & Gas	Partner of FF1, FF2 and LP1 in multiple Oil & Gas developments in Mozambique	LG2A	Director (undisclosed for confidentiality purposes)	Local
			LG2B	Director (undisclosed for confidentiality purposes)	Local
Foreign MNE	Oil & Gas	Partner of LG1 in a new gas-fired power plant and of LG2 in existing Oil & Gas infrastructures in Mozambique	FF1A	Prior Member of the Board of Directors	Foreign
			FF1B	Business Strategy Analyst	Foreign
Foreign MNE	Oil & Gas	Partner of LG2 in new Oil & Gas infrastructures in Mozambique	FF2A	Country Manager	Foreign
			FF2B	Local Content Manager	Local
Local Private / Informal HGP	Oil & Gas and Electric Power business grouping	Partner of LG2 in existing and new Oil & Gas infrastructure in Mozambique. LP1A is a prior cabinet minister of the Government of Mozambique and a highly politically connected individual. LP1B is the son of a prior cabinet minister and also a highly politically connected individual	LP1A	Chairman of the Board of one of the companies in the business grouping LP1	Local
			LP1B	Chief Executive Officer (CEO) of LP1	Local
Local Private / Informal HGP	Investment Holding with extractive industry interests	LP2 is an investment holding with interests in the extractive industry and is also a minor shareholder of LP1. LP2A is a prior cabinet minister and also a highly politically connected individual	LP2A	Managing Director	Local
			LP2B	Deputy Managing Director	Local
Economic Association	General Industry and Commercial	AA1 is an economic association of companies, both local and foreign, and with an official communication channel to government through regular meetings with ministers and the president to express concerns of the industry	AA1A	Director-General	Local
			AA1B	Director of Oil & Gas industry relations	Local

The interviews were audio-recorded using Audionote™ software that allowed for initial preliminary time tags to be marked on the audio files during the interview. These markers included time tags for each specific question, as well as specific keywords for emerging and recurring themes.

4.6 Data analysis

The data analysis consisted mainly of coding recurring themes that emerged from the interview data, which allowed for finding patterns in the data to answer the research questions and test the research propositions (Saunders & Lewis, 2012). In order to enrich the theory building purpose of the research proposed herein, within-case and across-case analysis (Eisenhardt & Graebner, 2007) was also used to identify patterns of relationships among constructs in the different cases. The data analysis process consisted of four main phases, which can be described as follows:

- In the **first phase** of the data analysis process, a set of codes that emerged from the literature review presented in Chapter 2 was developed and recorded. These codes were combined with the keywords of emerging and recurring themes that emanated from the *in-vivo* coding that were recorded and time-tagged during the interviews. The set of codes developed during this initial phase is outlined in Appendix C;
- In the **second phase**, the interview audio data was played back and the researcher annotated the time tags of occurrences of the codes developed in the first phase and also performed *in-vivo* coding of emerging themes and codes by annotating these new concepts along with its time tag. These new codes were used in subsequent interviews to allow for recurring themes to be properly annotated. The researcher analysed in sequence the interviews of both interviewees from each case to enable immediate detection of within-case similarities or differences;
- In the **third phase** of the analysis process, the researcher created a table in Microsoft Excel™ with the rows divided by research question and proposition and subdivided by the specific codes pertaining to each of these. The codes were then combined into overarching themes based on the logic of the underlying emerging theoretical constructs. For instance, the codes “lack of capabilities”, “safety and quality standards”, “locals want to do services” that codify potential reasons for the existence of tension, were merged onto one common theme;
- Finally, in the **fourth phase** the interview audio data was played back, and the important quotes from the interviewees that were associated with each theme were transcribed (and translated from Portuguese to English when applicable) to the corresponding column in the abovementioned table.

4.7 Limitations

Even when carefully designed, no research exists without limitations and this research is no exception. Thus the identified limitations can be summarised as follows:

- The exploratory nature of the qualitative research proposed herein is by definition preliminary, with the purpose of developing new theory, and is associated with in-depth data from a small sample size (Saunders & Lewis, 2012). As such, one of the major limitations is the extent to which it can be generalised to larger populations. The research findings and results discussed herein and the theoretical propositions and contributions will therefore require posterior validation through quantitative research that allows for the generalisation to larger populations (Saunders & Lewis, 2012);
- The interviews were conducted mostly in Portuguese with the exception of certain English-speaking subjects. Therefore there is the possibility that certain contexts and culturally grounded views and concepts are not correctly translated. These potential translation errors and misconceptions have the potential of affecting data validity;
- The researcher works for the oil and gas industry in a firm that serves as a case to the analysis presented herein, which might introduce observer error and bias (Saunders & Lewis, 2012);
- Even with measures taken to mitigate observer error and bias (Saunders & Lewis, 2012), qualitative research is nonetheless very subjective, reflecting the views of the researcher and observer. Moreover, the purposive and theoretical sampling used in the research is also subject to the judgment of the researcher. These factors might have induced observer error and bias, affecting the reliability of the findings.

4.8 Summary

This chapter presented the proposed research methodology to seek answers to the research question and propositions presented in Chapter 3, which were derived from the critical literature review presented in Chapter 2. The research design is succinctly summarised in Table 2 below which is based on the research onion layers outlined by Saunders and Lewis (2012).

Table 2 - Research proposal design summary – based on the layers of the research onion (Saunders & Lewis, 2012)

Research Component	Design parameter
Philosophy	<ul style="list-style-type: none"> • Pragmatism
Approach	<ul style="list-style-type: none"> • Combination of deduction and induction
Strategy	<ul style="list-style-type: none"> • Multiple case-study
Method	<ul style="list-style-type: none"> • Qualitative exploratory study
Time horizon	<ul style="list-style-type: none"> • Cross-sectional
Data collection and analysis	<ul style="list-style-type: none"> • In-depth semi-structured interviews • Total of six cases: two formal (local government-controlled) HGPs, two informal (privates) HGPs, and two MNEs. Two additional interviews with representatives of an economic trade association • Data triangulation with news extracts • Qualitative data analysis • Within-case and across-case analysis to look for patterns, logic and relationships among constructs • Four phase process: development of a set of codes from the literature review, audio coding with the pre-existing set of codes and <i>in-vivo</i> coding, transcription of relevant coded quotes into a table formatted according to the research questions and propositions

CHAPTER 5 Findings and results

Based on the research methodology presented in Chapter 4 and the inherent qualitative inquiry based on in-depth interviews and a multiple case study approach, this chapter presents the findings and results pertaining to the research propositions and questions presented in Chapter 3. The results presented herein will be further discussed in an in-depth analysis in Chapter 6.

In the relationships described herein, it is important to recall from the interviewees description presented in Table 1 (page 27 of Chapter 4), that the local government-controlled firm LG2, is a partner of the foreign upstream developer FF2, as it is of other MNEs investing in any oil and gas sector in the country by mandate of the government. In particular, LG2 is also a partner of both FF1 and of LP1 in existing and new gas infrastructure being developed in the country. Moreover, FF1 and LG1 are also partners in developing a new gas-fired power plant. Throughout the interviews and analysis process, there were many calls for more government intervention to support local development from spillovers, both from a local and foreign perspective, and as such these will not be considered as a standalone and separate category, but rather as a whole. Moreover, the lack of awareness and capabilities of local firms to understand and engage in obtaining more benefits from spillovers was also a recurring theme that emerged in the data.

5.1 Tension existence and causes

This section will present an analysis of the findings pertaining to Proposition 1 and the existence or not of a tension between MNEs and HGPs with regard to obtaining benefits from spillovers, and its causes. The main conceptual subthemes that emerged from the interview data and analysis are presented in Table 3 below, which were summarised from the more extensive narrative analysis presented in Appendix D. The four main themes that emerged as potential causes for the posited tension can be briefly summarised by the following main points which are further analysed in the subsequent subsections: **i)** the provision of services from local firms by MNEs is low because of the lack of capabilities and low quality and safety standards, which means MNEs tend to source services externally; **ii)** development of local partnerships and shareholding; **iii)** the tendency of extractive MNEs to avoid developing domestic

markets; and **iv**) profit maximisation and timeframe issues for MNEs.

Table 3 - Tension existence: key and conceptual themes that emerged from the data analysis

Code	Provision of services, lack of capabilities and low quality and safety standards	Development of local partnerships and shareholding	Domestic markets (DMs) development avoidance by extractive MNEs	Return maximisation and timeframe perspective of MNEs
LG1A	Technical, certification and experience pre-requisites	-	-	-
LG1B	Perception that local firms are not prepared	-	-	MNEs' objective is to make money but local development must be felt in practice
LG2A	Tendency to bring foreign services due to time and quality requirements	-	Few formal mechanisms to force development of DMs; new mechanisms being created	MNEs return and payback period vs. local interest of other socio-economic development factors
LG2B	Lack of confidence in local capacity; risk aversion of MNEs	-	Is a consequence of funding principles and local rules; MNEs avoid commotions by developing DMs	MNEs are more interested in recouping their investment quickly than developing DMs
FF1A	-	Stronger pressure to engage Mozambicans as shareholders	-	MNEs put all the money in and want the majority of the benefits
FF1B	-	Local partnerships can facilitate compliance of local impositions	-	Sense that local firms are not adding value
FF2A	Local firms do not have the necessary licenses	-	Prefer to not develop but will to avoid tensions; Current amount of gas for DM is excessive	Government is only concerned about social development and not about timing and returns of MNEs
FF2B	Lack of local capacity; tendency to source suppliers externally	-	Makes no economic sense; demonstrated stronger attachment to country development than FF2 export orientation	Clear timeframe and objectives to return profits to MNEs investors and shareholders
LP1A	Local companies not sufficiently organised and capacitated	MNEs not committed to forming local partnerships; must be imposed by government	Development of DMs is only a means for MNEs to avoid further tensions	-
LP1B	Not particularly related to service provision but identified overall lack of local capacity to take advantage of spillovers	MNEs avoid local partnerships; egoism over the resources	MNEs avoid maximum possible to develop DMs	MNEs' primary objective is to keep colonising; explore for resources
LP2A	Local services only because of government impositions	MNEs do not want to associate with anyone locally; Government policy is not supporting local firms	-	-
LP2B	MNEs typically give services to companies from their home countries; local impositions should help to hire locally	Problem is government policy protecting MNEs rather than local firms	-	MNEs exploit maximum possible and go away; minimal compliance with local impositions
AA1A	No tension, lack of knowledge from both sides	-	-	-
AA1B	No tension, dynamics of competition only	-	-	-

5.1.1 Provision of services, lack of capabilities and low quality and safety standards

One of the main themes identified from the respondents' data when asked how they perceived the potential tension between MNEs and local firms with regard to spillovers, relates to the lack of capacity and low safety standards of local firms to provide quality services to MNEs working on large resource exploration and extraction projects in the country. This means MNEs tend to hire foreign firms, with whom they are familiar, creating even more tension. In this regard for instance, a director of the local government-controlled firm LG2, respondent LG2B, identified the tension as being intense in a relationship of friction between MNEs and local firms:

"It is very intense (...) MNEs are companies with some experience, are companies that have a strong story in the market, and with strong alliances in the service providing area and naturally want to work with companies they have confidence with, they know, etc. not being very willing to risk and work with local companies over which do not have a lot of confidence and knowledge about their capacity. Thus the relationship is naturally one of friction." [LG2B]

The concerns about local firms' capability to service MNEs is shared by the chairman of the board of the petroleum regulatory body *Instituto Nacional dos Petróleos* (INP), as evidenced in a recent news extract (O País, August 19, 2014):

"The Petroleum National Institute (INP) fears that Mozambican companies are not able to exploit the business opportunities offered in the hydrocarbon sector. The institution advises local entrepreneurship to work more, to not allow that foreign companies take all the money that they invest back to their countries. 'It will be invested between \$ 25 and 30 billion, but a big part of that money will go back through foreign companies that will provide services. The challenge that we have is to enable local companies to start to have the required level to also start to supply services and take advantage of that investment' explained Mabote."

5.1.2 Development of local partnerships and shareholding

Another theme that emerged from the data, as a potential cause of tension, was related to the broader context of development of local partnerships and shareholding with local firms and entrepreneurs. Local private firms tend to view MNEs as avoiding partnerships with and shareholding of locals. Interestingly, this sub-theme only emerged in the interviews with the private sector firms. The perspective of local shareholding and partnering avoidance from MNEs is supported, for instance, by the view of LP1A, a previous cabinet minister (of a relevant field, undisclosed herein for the sake of confidentiality) and currently the chairman of the board of one of the companies in the business grouping LP1:

"With relation to local investors, the participation... the opportunity of local investors participating on these [extractive MNEs projects]. There, I think that from MNEs maybe there has been less commitment in doing that. I believe that is something that can only be

imposed by local circumstances, either by government impositions or even by the aggressiveness of local investors." [LP1A]

5.1.3 Domestic markets development by extractive MNEs

One interesting sub-theme that emerged in the overall theme of local content development related to tensions about the development of domestic markets. The overarching concept that emerged from the data identifies that the commitment to develop domestic markets (within the broader concept of local content development) is also a source of tension as local firms look to develop it by exploiting opportunities arising from the activities of extractive MNEs, whereas those extractive MNEs objectives are majorly concentrated on export markets. This is highlighted by LG2B on the issue of developing domestic markets:

"I think that until today as we do not have formal mechanisms that force MNEs to maximise and develop local content (...) in which they should develop the local market, what you see is that MNEs are more extractive companies, that want to extract the resources and export the maximum they can and not develop the local market and contribute to the country's industrialisation and domestic market. But little by little government is creating these mechanisms to maximise the development of the domestic market (...) That's why it has approved the gas master plan that establishes that at least 25% of the gas must be used for the domestic market." [LG2B]

5.1.4 Return maximisation and timeframe perspective of the MNE

Interestingly, one of the themes that was expected to be prominent from the interviews but was not as strongly grounded in the data as the service provision issues and lack of capabilities identified above, provides direct support to Proposition 1. It is related to the priority for MNEs to maximise their return on investment, taking into account the timeframe necessary to recover the investment, investment- associated risk and MNEs seeing local firms as not adding value. The underlying dyadic and opposing perspectives as a source of tension are supported by the view of FF1A:

"We put all the money in, we do all the development and we want the majority of the benefits (...) you have to understand that multinationals come in and take the initial risk and they take a lot of risk. Therefore they would like to see a higher return than they would get in other areas. So you've got a natural tension of maximising shareholder value, versus the country that also wants to maximise the benefits to its own investors and its own businesses" [FF1A]

Moreover, the government of Mozambique clearly displays its mediating role in the above-evidenced tension, as demonstrated by an extract of a speech of the former president of the Republic of Mozambique, while he was still in office (Guebuza, 2014):

"These developments increase our responsibilities, by one side, to place those resources firmly in our development matrix, which is the great expectation of our people. On the other side, we have responsibilities in assuring a growing favourable environment to national and foreign investment (...) There is no contradiction between these two strands, that is, between promoting the development of our Mozambique and assure the return on

investment of our business men and women.”

In general, it could also be observed that respondents from local government-controlled firms demonstrated an approach that would reduce tensions, whereas from the private sector, the overall perception about the objectives of MNEs going into a natural resource rich country was more hostile.

5.2 Strategies used by local firms to maximise benefits from spillovers

With regard to Research Question 1, two main themes were identified from the data, which can be transposed into strategies. One relates to forming partnerships with foreign firms, and the other to lobbying and putting pressure on government to create more opportunities for local firms to grow by imposing obligations in this regard on MNEs.

5.2.1 Lobbying government and claiming benefits

In terms of lobbying and claiming more benefits from government, the overall perception from the data was that there is a strong lobby by local firms to government to find ways for them to get greater benefits from spillovers. This trend was strongly grounded in the data and some examples can be provided. In particular, LP1B, a politically well-connected individual, demonstrated strong support for a change in the investment conditions with MNEs from local entrepreneurs to one of the 2014 presidential candidates from *Frelimo*, the ruling party in Mozambique since independence, who subsequently became president:

"At this moment there is a massive effort from the few local entrepreneurs in the strong support of one of the presidential candidates political campaign, and one of the conditions and one of the meetings that existed was exactly that. That local entrepreneurs want immediately after his arrival in power is to attack MNEs with eyes on eyes. Because only with government support it is possible for the local entrepreneurs to do any business with these MNEs in benefit of the country." [LP1B]

These lobbying efforts are also evidenced by LP1A, a previous cabinet minister who maintains influential connections with government and is of the view that the challenge of making local firms grow is more a challenge for government than for local firms:

"Some things it is not expected for local firms to solve. Inclusively, I've defended that in some decision forums, saying that what is needed is some caution, because the entrepreneurs that are in current associations are concerned with their own companies and their own gains (...) I see lots of economic activity developed in informal terms, but it is possible to develop those activities in a more formal way, more organised and more profitable (...) I see that more as a challenge of government." [LP1A]

Another previous cabinet minister, LP2A, the managing director of the local investment holding LP2 and still an influential individual, also supports the fact that government

must have a stronger local protectionism policy:

"In my opinion, the strategy has to be a government strategy (...) I'm used to saying that these MNEs that are big companies and are MNEs started always as small firms. They grew because they had support from their governments. They had support. And ended up becoming MNEs because they became very big in their countries, and going to other countries seeking businesses in other places (...) The state must promote national firms so that they are competent and enter into the projects, medium and big, as a national firm, allowing them to go and look for partners where necessary." [LP2A]

This lobbying strategy of local firms not only came from private companies but was also identified by LG2A, one of the directors of the local government-controlled firm LG2:

"They resort to the formalisation of the relationship, the point of the legislation, of the law, to force international companies to do this and this and that, and put that in the law. Instead of that being a negotiation matter, local firms resort to pressure on government and to who needs to formalise and legislate" [LG2A]

The above-identified lobbying strategy was also highlighted by FF1A from a foreign MNE perspective:

"There are several service providers which are very verbal and are very strongly lobbying that Mozambican companies must get as much as possible" [FF1A]

5.2.2 Local firms partnering with foreign service providers

In terms of creating partnerships, one of the strategies identified is that of a local firm partnering with foreign services providers that are also MNEs, to provide services to the large MNEs operating in the natural resource development fields and taking advantage of the fact that it is valuable to have a local partner. This is supported by the view of AA1A:

"There are announcements from FF2 or [DEDACTED - Other Rovuma Basin field developer] inviting firms to provide services (...) some of these services we clearly know will not be provided directly by Mozambicans, because they do not exist in Mozambique (...) there are national firms that look at those tenders and say 'I know where to go and get a partner to jointly do it'. So they do a sharing in this project." [AA1A]

This view that there are some local firms that are partnering with foreign firms is also confirmed by AA1B:

"Others are doing partnerships with other foreign firms to be able to attack the market." [AA1B]

The chairman of the regulatory authority INP shared the idea that one way to tackle the current lack of capabilities would be to partner with foreign firms as stated in the recent news extract (O País, August 19, 2014):

"The Chairman of the board of the National Petroleum Institute, Arsénio Mabote, believes that the best option is for Mozambican firms cooperate with foreign companies. 'We believe that we can do, in a first phase, intelligent partnerships with foreign companies that have knowledge, so that, in five to six years, we can supply services to the natural gas industry', explained Mabote."

Interestingly, even though AA1A represents a commercial association of firms, he is also an entrepreneur seeking opportunities. In his private capacity, AA1A was prepared to partner a foreign company to participate in the construction of the logistics harbour at Pemba (main logistics support harbour to the northern offshore gas field developments), but complained that the work was going to be handled by the logistics venture of LG2. This logistics arm of the local government-controlled firm LG2 was in fact created to generate spillovers and to take advantage of the large demand for logistics services for the big project developments in the oil and gas sector, as explained by LG2A:

"[Local firms] have to create jobs, have to allow the involvement of a larger number of local firms, small and medium enterprises that dynamize the economy and also have to look above all to some areas of services. Logistics, because logistics in the operations that we are talking about account for 25% of what is the typical costs of the projects. For projects with this magnitude, if a portion of those 25% is captured by the local entrepreneurs, the economy will be leveraged through services and when extraction comes it will find an enlarged base of small and medium enterprises and also of the middle class already constituted." [LG2A]

The logistics investment focus of the local government-controlled enterprise LG2 was also mentioned by former president Guebuza during a speech at the 4th International Conference on Mining, Gas and Energy in Maputo on 27 March 2014:

"We've been conceiving and making investments in the areas of infrastructures and logistics, as well as in other services, with the participation of the private sector."

This strategy of LG2 in creating partnerships with foreign firms is also confirmed by the views of FF2A, FF2B and LG2B:

"The only one [strategy] that really comes to mind is LG2 (...) they leverage on the fact that it is better for companies to have a Mozambican partner, I think they telling 'it is coming, you must have'. So they've formed partnerships with a lot of foreign companies that are coming in (...) companies that come in here now are starting to realise that having a local partner is probably a good idea." [FF2A]

"There are entrepreneurs that ask me why we [FF2] went to get MNEs that understand how to do the gas, instead of inviting first Mozambicans that then would go and invite the foreign companies." [FF2B]

"We've established some local firms that are a result of partnerships with MNEs (...) to take advantage of the technical know-how and also the financial capacity of those companies (...) bring them to the country, and by that way you create a lot of direct impact in the populations through employment and others, and to create internal capacity as well." [LG2B]

These partnerships and joint ventures are confirmed by LG2A who also identified that part of the strategy is that when the business matures, LG2 has a strategy to buy back the company and sell it on to private nationals or have an exit strategy from the business itself to realise benefit from the partnership:

"We know what are the national limitations, and within those limitations we look to do partnerships, joint-ventures, to capitalise, and in these partnerships that we initiate with a joint-venture, later, when the business is established, we might buy back and sell to national privates or sell a portion of our shares to national privates, or we have an exit strategy of the business itself." [LG2A]

Indeed, a recent report reveals that LG2 has appointed and mandated a local bank to set up the sale operations of a 20% stake of its logistics wing to Mozambican shareholders:

"We have given a mandate to [REDACTED – Local bank] which is a Mozambican entity that will define the strategy for the participation of Mozambicans in the capital of LG2 logistics, which will be a process on the stock exchange, so that it is an open and transparent operation. In short-term we will finish the strategy definition and initiate the incorporation of Mozambicans" [in news extract unreferenced for the sake of confidentiality]

5.3 Tension differentiation between private and local government-controlled firms

The overall perception that emerged from the respondent's data was that the tension is greater with the private sector than with formal partnerships with government. The main reason for this is that in formal partnerships with government, or with local government-controlled firms or SOEs, there are already mechanisms in place that allow the participation of these firms in large developments, whereas private firms do not have automatic access to such projects. This situation is supported by LG2A, a director of the local government-controlled LG2, who said that the tension existed more in the private sector rather than with themselves and that formal partners of government were already participating in large developments whereas private firms were not prepared for engagement in these projects:

"[The tension is greater with] private firms because formal partnerships are already in (...) the others, lots of times do not prepare and are waiting for services or jobs that must be delivered to them. But it is more on the private side than the formal side." [LG2A]

The other director of LG2 further supports the view from LG2A. In this regard LG2B confirms that the existence of formal mechanisms of participation in the projects from local government-controlled firms, eases the tension for them whereas the lack of those mechanisms increases the tension in the private sector:

"Formal partnerships are partnerships that are established based on clear established rules, norms and laws, and that helps a little bit to avoid the tension because it is clear, legislated, formally defined. In the informal sector (...) there is no formal mechanism that establishes how this local firm that is new in the market with no experience can participate. The inexistence of this formal mechanism naturally creates some tension because the tendency of the MNES is to hire foreign firms that have all the know-how to do the work." [LG2B]

In the same line of thinking, interviewee LP1A also identified the tension as being

higher with private firms because of the existence of the formal mechanisms allowing SOEs economic access:

"Because public enterprises are in a certain type of business where they build a natural monopoly. If a person wants to do business in Mozambique, it is very difficult to do business that involves energy generation without involving LG1. LG2, idem. If you want to participate in the petroleum business practically you have to get into an understanding." [LP1A]

The director from the local investment holding LP2, interviewee LP2A, also said that the tension is greater because these entrepreneurs have to try harder to find new markets with the MNEs whereas SOEs automatically partnered them in big projects:

"I think it is with the private firms that need absolutely to develop themselves new markets (...) public enterprises that are property of state, like CFM [Railways and Ports state-owned enterprise] end up being partners of MNEs." [LP2A]

From a foreign MNE perspective, the more elevated tension with the private sector in comparison to local government-controlled firms is supported by the view of FF2A, the managing director of FF2, who identified the tension as being greater with private firms that have a strong vocal presence in the business association AA1:

"Where we see the tension in the local market is at a smaller scale, at a SME and medium size enterprises (...) they have a lot more vocal presence in AA1 and some of these other business associations. They want to participate in these big projects, and at times feel like they are not invited to do so (...) that's where the tension is (...) Private sector companies that want to work for us and do not think they get that opportunity, which in reality they do (...) They find onerous to go through the process [of getting qualified]." [FF2A]

The national content manager of FF2, interviewee FF2B, also similarly identified the tensions but was more adamant about categorising the tension coming directly from the business association AA1, rather than from its individual members:

"I see it [tension] more in certain institutions [AA1] that should incentivise Mozambicans to work (...) and that instead of representing the interests of the local companies, they use a speech of claiming benefits all the time. They're not concerned in organising the local entrepreneurship sector (...) and are more concerned about claiming that they do not have support" [FF2B]

In the same line, FF1B, a manager and strategy analyst from FF1, also identified the tension being greater in the private sector whilst explaining about the greater bargaining power of government:

"I think it is more with the privates. The reason being they realise that in a formal partnership, if a government closes the door, you're out of the country. Government can kick you physically out of the country. Informal partnerships, it is easy to replace LP1. We'll just put somebody else in its place. So I think the tension is much bigger with the private sector." [FF1B]

The other interviewee from FF1, previous board member FF1A, could not provide a clear distinction about where tensions were higher but indicated that the tension

generally is increasing over time

"Initially it was very easy to get certain rights and it was easier to negotiate because they did not know the resource business that well. So it was easier to negotiate very good contracts. Now increasingly, the Mozambicans are becoming better educated, they get better advisors, so increasingly they want to get a fairer deal for government. That is on the one side. On the other side, Mozambican private investors have got a bigger appetite, much bigger aspirations because they're not seeing as much spillover to them as they had hoped." [FF1A]

In terms of to where spillover benefits are expected to be greater, the majority of the interviewees gave more examples of spillovers to private firms and almost none to local government-controlled firms, which is contradictory with the above mentioned finding that local government-controlled firms are more protected by formal mechanisms compared to private firms. Nonetheless, even recognising that LP1 was indeed created as a spillover of FDI, which FF1B also exemplified as a spillover to private firms, LP1B categorically said that in fact, going forward, the highest potential spillover opportunities would be harnessed by local government-controlled firms:

"In reality, the few initiatives that will be able to be harnessed are through those parastatals, LG1, LG2." [LP1B]

The above quote of LP2A *"public enterprises that are property of state (...) end up being partners of MNEs"* substantiates the above view of LP1B. LP1A also mentioned that the new public private partnerships legislation that is currently being drafted appears to favour public enterprises and not local private firms:

"That legislation about public private partnerships, it appears to be a good legislation when it defends a percentage for nationals. But the way it is drafted, leaves the impression that it is a percentage for public enterprises, perhaps due to the lack of a mechanism that forces the foreign investor to include put national privates as shareholders." [LP1A]

Nonetheless, the overall perception based on the data at hand is that the tension appears to be greater with local private firms and that spillovers overall are expected to be greater for local private firms as well.

5.4 Relational vs. transactional approach to mediation on the tension and spillovers

The overall perception that gathered from the data is that there is a significant difference in the way private firms and local government-controlled firms perceive the relational approach with foreign firms. In this regard, local private firms believe overall that the hypothesis of using a more relational approach, even if in theory it would lessen tensions, would not be effective since there is a general scepticism that MNEs would use a similar approach. Rather, as the many opinions indicate, there is a strong

belief among local private firms that the government needs to intervene to develop the private sector's opportunities with MNEs. On the other hand, local government-controlled firms are more optimistic about the benefits of a more relational approach.

5.4.1 Local private firms scepticism about benefits of a more relational approach

From the local private firms, the scepticism is highlighted by the view of the CEO of LP1, when LP1B says that MNEs give a "cold shoulder" even if you try to associate with them because they normally do not want to associate with locals:

"The MNE normally does not want to do nothing, they want to give the businesses to their friends, those that they say that they are certain that are going to do the job well. Obviously the relational approach should be better, but that is not reality. In reality it does not exist. Even if you try to associate, they [MNEs] give you a cold shoulder" [LP1B]

The lack of will to associate with locals given in the above view of LP1B might be associated with the lack of confidence MNEs have in the capabilities of local firms to provide services, but LP1B added also that a stronger government intervention was necessary nonetheless:

"Independently, if there is a change of positioning of those big MNEs to do more an approach of association, that association can only be enriched if the state positions itself better, if the state has imposition and looks strongly in the eyes of the investors". [LP1B]

The same scepticism about the positive effects of a more relational approach is shared by LP1A who believes that the solution and responsibility to decrease the tension and increase spillovers lies with government and not with the companies:

"I think that us spending too much time trying to create more awareness in firms, it is possible yes, but I doubt the companies get out of this perspective of gain: 'we want to make money, we want to control the global market, we want to control strategic resources and therefore will do everything in our reach' (...) the objective is clear of gaining more. Thus, the solution I see in this is not with the companies, it is with government." [LP1A]

Another local private firm, LP2B, was also very sceptical about developing stronger relations with foreign MNEs and called for government intervention:

"I'm not seeing how we can dialogue with an MNE, depends, maybe if it is the CEO, unless it is at a very high level. The rest only complies with norms (...) but once again there must be an intervention from the state. The state must intervene (...) must help, without that they will do the least possible because it does not interest them." [LP2B]

The managing director of LP2 was also sceptical. LP2A said:

"Well, I believe that with one or another exception, that hypothesis is not applicable, and will not exist soon (...) until now I have not seen any. The tendency of the MNEs, globalising, in my opinion, that hypothesis it is out of question, they will not do it." [LP2A]

5.4.2 Positive effects of a relational approach to reduce the tension

The more formal sector, local government-controlled firms, seemed to believe that a

more relational approach clearly reduces the tension between MNEs and local firms.

The answers in this regard were similar from all respondents of this group:

"Tension is less when they come with a more personal perspective (...) when there is not a relational approach it is very easy to reach the insults, and sometimes no one is right" [LG1A]

"Naturally, I think the way you enter from the start can facilitate all dialogue, all relationship that happens after (...) it decreases tension naturally." [LG1B]

"With the inter-relational component, the investment is more friendly." [LG2A]

"If they are more competitive they increase the tension. By the nature of the Mozambican, by the culture of the Mozambican, even when it comes to business the personal relations are very strong." [LG2B]

On the other hand, from the business association AA1, the director AA1A said that Mozambicans first have to recognise that they are in a weakened position and expect some understanding and guidance from the MNEs:

"As a Mozambican service provider (...) I have to recognise that I still do not have conditions of norms, quality and means to provide those services. I'm waiting that my partner, buyer of services, to be understanding (...) that ensures me that if in certain conditions I cannot give you the contract, but if you come with these other conditions I'll give you the contract (...) When I'm ready I'll go to them and (...) once they're satisfied there is no problem." [AA1A]

Opposed to the view of AA1B, the other manager of AA1 had a different stance tied to the conceptualisation of tension simply being a normal part of a competitive, dynamic market:

"We're talking about businesses here, not friendship (...) I always say, here it is a market economy, an open economy, so the environment is a dynamic environment, there's a competition (...) no tension at all." [AA1B]

Interestingly, the managing director of FF2 bluntly recognised that his firm culture is very much transactional, whilst also recognising that a more relational approach could possibly reduce the tensions. Even though they have strong bonds with key companies in their upper supply chain, in Mozambique at the SME level they would never have those type of relationships:

"As an Anglo-Saxon company, we're very much transactional (...) there is very little relationship (...) the big big companies that we deal with that provide a key role in our business, we do a lot of high value interaction with, mostly oil field service and drilling companies, we will have relationships at the top with those firms. Here at the SME and medium level we'll never have that. They're too insignificant contracts to be able to devote the time to go develop those relationships (...) I know that here that is more important, but (...) we're happy to sign contracts as long as people deliver without necessarily having a strong bond with them." [FF2A]

If the foreign expatriate managing director of FF2 had the view above, the Mozambican national content manager FF2B had a different view, saying that the foreign investor

needs a local partner that understands the local context and local firms need to change the way they view of MNEs so they can learn from them:

"It [relational] affects, I think it is going to improve a lot the relationship because when an MNE it arrives in the country it needs a partner, someone that understands this (...) for me the way for this tension to go down, it is needed for Mozambican companies to change the way they view MNEs. To see them as source of learning above all." [FF2B]

Again, these different perspectives from the same company, from a national manager and a foreign expatriate, suggests that these different views are based on different vested interests in the local context between a local national and a foreigner working for the same company.

From another foreign firm perspective, FF1A said that the relational approach has the potential to reduce the tension in the short term, but in the long run it has the potential to increase the tension further if locals do not see true benefits from spillovers:

"I think in the short-term it decreases the tensions, but on the long-run as Mozambicans see what they're losing out on, it increases the tension." [FF1A]

Also from FF1, the business strategy analyst also agrees that the relational approach helps to decrease tensions:

"Firstly, it [relational approach] builds trust. It is a relationship that it is built in a win-win type of principle (...) transactional we only focus on this contract. The next project with you will also be transactional. So it is every time the pain over and over and over again." [FF1B]

5.4.3 Effects on realisation of spillovers

With regard to the effect of a more relational approach on the potential benefits of spillovers, and given the scepticism of some of the respondents with regard to the positive effects of a more relational approach in the tension, this scepticism transposed as well to the potential benefits to be obtained. Nonetheless, from the majority of the interviewees that identified the positive effect of the relational approach on the tension it was possible to also find evidence from that group that the benefits to be obtained are also potentiated by a more relational interaction rather than purely transactional, as demonstrated by:

"With transactional it creates more difficulties (...) you end up discussing things that do not add value to the project" [LG1A]

"I think that they [spillovers] are naturally superior, because you integrate those objectives in your daily agenda, that you yourself go and look for it and are more open to adjust to what are the needs of local institutions and firms." [LG1B]

"If there is no opening, if there is no relationship, what happens is that the deal is purely

transactional, and if that is, tends naturally to be very formal (...) and generates less [local] benefits." [LG2B]

"It is evident that can only improve, there's more opportunity to sell, more opportunities to develop the company." [AA1A]

Overall, it can be concluded that scepticism is high in the private sector about the positive effects of a relational approach rather than a purely transactional one. This shows little incentive for companies to use relational approaches with foreign firms, whereas local government-controlled firms, which are more protected by legal and formal mechanisms that establish rules for interaction with MNEs, were more positive about a relational approach.

5.4.4 Differences between western and eastern MNEs

An interesting additional finding which emerged in the first set of interviews, and that the researcher sought in subsequent interviews, is related to the difference of approach between western and eastern countries, as evidenced by the following comments:

"The Oriental countries are more flexible (...) they take long to decide, but when they decide they do it because they have resources to do it. The ones from the Occident (...) the tendency is to make extremely high demands to minimise the risk of the project" [LG2A]

"I see Oriental [firms] being more interested in the sustainability and the Occidental more interested in the maximum exploration of resources, and immediate return of investment." [LG2B]

"Even though there is the same colonisation agenda, the same agenda of extract the maximum, the Asians have a posture of infrastructure development in the developing world, opposed to the Occidental world." [LP1B]

The overall perception that was gathered from the data is that MNEs that come from western countries, rooted in a more individualistic culture, are less open to take a relational approach with local firms, whereas MNEs from the east are more likely to do so, allowing more potential spillovers from inward FDI.

5.5 Tension mediation by changes in network bargaining power

The overall perception gathered from the data was that political lobbying, either from local firms or from foreign firms, has an effect on the posited tension between local firms and MNEs. Two pivotal actors play a fundamental role in the changes of bargaining power of government, which were identified in the data, being civil society and an association of industries that has a direct line of communication to government. Interviews with the latter mentioned industry association, hereby identified as AA1, were also sought to be able to analyse their view on the effects on the posited network bargaining power.

5.5.1 Political lobbying and complaining by locals

The view of the managing director of FF2, substantiates the fact that that lobbying efforts by locals, even though he contextualises it more as complaining rather than lobbying, has an effect on the concerns government transmits in the negotiations with FF2:

"The lobbying and maybe it is the complaining, if we look at it that way, of these companies voicing that to government, it definitely has an effect on the way government talks to us, and what their expectations are, and it affects their policy (...) I can have ten meetings with ministers and the president and nine of them it will be about jobs, Mozambican company development, social investment and training (...) they never talk about timing, how quick, how much money will we make and the government, money that they can go and invest in other things." [FF2A]

The national content manager of FF2, a Mozambican national, also contextualises the lobbying of government as "whining" rather than a structured effort:

"It does not exist. It is a whining. It is not a structured lobby as seen in other countries (...) I think that unfortunately it has not been having the desired effects (...) because there is no concern of organisation." [FF2B]

These contrasting views of FF2A and FF2B suggests once more that two individuals from the same organisation, one being an expatriate and the other a Mozambican national, have different personal vested interests in the country, which affects their perceptions of the underlying tension. From another MNE perspective, FF1A also identifies lobbying as increasing tensions:

"Their [MNEs] business was to maximise their shareholders returns, and anything they gave away to Mozambicans diluted that return. What we now found is that more and more of that lobbying is causing that healthy tension and that tension says: 'gentleman, you have to give us much more opportunity to participate'." [FF1A]

From a local private firm perspective, the two respondents from LP2 identified the association AA1 as having a central role in the interaction with government:

"They can do it. Through AA1. AA1 is a type of association of firms, of patronage in practice, that has permanent contact with government (...) to present the problems that they feel. So, it is through AA1 that all those questions are put (...) this is from an institutional point of view. From a private point of view, it is very difficult. There are lobbies naturally that are formed by friendship, some influence, but it is very difficult." [LP2A]

"I think AA1 is working but it is still not heard, or not sufficiently, or very slowly. Results are not seen yet but I know that they are working. The system must be like that, we cannot each entrepreneur go and talk to the Ministry responsible for the project we have (...) AA1 is a mechanism of each one, inside each sector that must say to them what are each one's concerns and they have the function of gathering everything (...) and they already have meetings, I think its every 3 months or every 6 months with the Commerce Minister." [LP2B]

This was also identified by FF2A

"These groups, whether is AA1 or businesses or what not, have got their message

through to the highest levels of government here that their needs are important and they're not being met. And that comes to us. There will be national content legislation. I have no doubt about it. Hopefully they do it well." [FF2A]

The chairman of the board of directors of one of the companies in the LP1 business grouping also identified AA1's central role in the relationship with government:

"Through that lobbying, pressure from society, yes [changes bargaining power]. This instrument AA1 is an instrument that should be taken into account in the change of legislation throughout the years, where the entrepreneurs sit with government and say 'no no this cannot be, we need to change this, that and etc. If the foreigners are having unfair advantages, we also can'. So there is a need to change some legislation there, even with relation to the labour law but also other laws like procurement and so on." [LP1A]

On the other hand, the CEO of LP1, interviewee LP1B, an entrepreneur with extensive linkages to government, did not believe AA1 was an effective organisation:

"There are some attempts through associations like AA1, but AA1 is a masquerade. It does not work. It is a club of good friends" [LP1B]

Moreover, LP1B believed that the government could use top local companies to increase its own bargaining power with MNEs:

"If Government has the capacity and courage to put entrepreneurs that have knowledge of their sectors in its negotiation teams and if the government has the courage to tell those big MNEs 'friends time has arrived for you to leave something here' and use those people as advisers (...) if government is acting in a market economy, it has to have people that have knowledge of their sectors to enter in the negotiations as advisers." [LP1B]

On the other hand, the director of AA1 believed that there has been significant pressure from local entrepreneurs to have a bigger share in the investments being made, even though he could not see it having an impact on the bargaining power of government:

"No, I cannot say it affects, what we are saying is that local entrepreneurs have been putting a strong pressure on government so that local firms can have a share in this process. And a share in different types, like I say local content is very wide, even if it has to start just by services, it is already a very big opportunity for these small firms to develop." [AA1A]

The other interviewee from AA1, interviewee AA1B responsible for the oil and gas association interactions, interestingly identified that foreigners also have a lobby:

"The political lobby that exists here is not from Mozambicans, it is from the foreign agencies here that influence government. That is a well-structured lobby to influence certain matters." [AA1B]

This political lobby was also identified as being more prominent from foreign firms by LP2A and LP2B:

"Normally these lobbies, the efficient lobbies, are not even done by local firms, it is done by foreign firms (...) they can through personalities that have decision capacity, the President, Prime Minister, Ministers, find ways of getting approvals on some projects, in a

way that is not very correct, not very transparent." [LP2A]

"MNEs are the ones that have lobby in government, it is not the privates. The privates that are there are opportunists that stay with 1% but are not those that develop the economy." [LP2B]

From a local government-controlled firm perspective, a more mediating role was observed, seeking to demonstrate the need for a balance between foreign investment and local content as evidenced by the views of two directors from the two local government-controlled firms:

"Government attracts foreign investment and then it must create conditions for that investment to come and be done in a sustainable way (...) it cannot have a hostile attitude towards foreign investment, towards FF2 and etc. They are companies that have a certain type of expectations that must be accommodated. That is one aspect. On the other side, government also has to attend to what are the needs and expectations of local partners (...) it is always needed some protection but it has to be done in a plan, because you can protect [locals] and damage foreign investment." [LG1B]

"The government, also hearing the opinion of the civil society gets concerned and then can have the tendency to create administrative measurements that then are not feasible. Instead of supporting a project it might undermine it." [LG2A]

5.5.2 Civil society as a source of bargaining power

Interestingly enough, the above comment from LG2A introduces another important actor that emerged from the data – **civil society**. In this line of thinking, LG2A hints that MNEs also understand and approach civil society organisations if there is any civil society unrest:

"When civil society intervenes through criticism and self-criticism it creates two scenarios: one is a situation in which investors fear betting on local firms, but there is also the other side of the coin when the population proactively positions itself through criticism and proposals of solutions, and what companies do is approach and try to understand. If they feel any gap they create incubators." [LG2A]

A director of the other local government-controlled firm, LG1B also supports the perspective that MNEs engage with civil society:

"Civil society has a determinant role in the decision taking, from political to economical process (...) MNEs also know how to manage civil society (...) Civil society tends to be fair and understand." [LG1B]

The relevance and power of civil society in having an impact on the government's bargaining power position is also supported by other views, ranging from government-controlled firms to private firms and also from a MNE perspective, as evidenced below:

"I think it influences positively [the bargaining position of government] regardless of the criticism of civil society sometimes, which is natural because they're not in the inside and do not have all the information behind certain decisions. But they allow, as well, for government to look at its own decisions and analyse them with [better eyes]... because it has the opinion of someone that is outside the process. I think it is a positive contribution." [LG2B]

"It increased [government bargaining power] first because government has much more palpable things to offer and also this, if I can say it like that, indirect support from civil society. Because this claiming that civil society does, ends up giving advantage to government to demand: 'now see, people are protesting and claiming'." [LP1A]

"Civil society has a preponderant role, because it is civil society that exerts, that is the primordial factor of capacitation of the entrepreneurship class in taking advantage of the spillovers. If you do not have a conscious civil society that understands that it has to build capacities, then it is really impossible for you to aim for anything." [LP1B]

"Civil society here, I think, contrary to what others say have a very powerful voice, government ears it, government understands it. I think that Frelimo [Government in power] firmly believes that if they do not deliver on that, they will lose their grip on power." [FF2A]

The national content manager of FF2, who is a Mozambican national, had a different stance from his expatriate managing director, FF2A. The important role of civil society was also highlighted, but FF2B demonstrated a more detached positioning from the MNE interests, focusing more on the needs of the country:

"The society itself must wake up and realise this is not well. It is not well. The politician that arrives to the government, or becomes a minister, he will manage his own stomach. He does not have the vision for the country. Who must have the vision for the country are these civil society associations. It is them that aggregate the various interests but that spend the day claiming and whining (...) we do not have anyone concerned in looking at the problems in its own sector and make specific proposals of solutions, proposals of changes of law." [FF2B]

5.5.3 Effects of lobbying and complaining on the tension and benefits from spillovers

The effect of lobbying and voicing the concerns of local firms to government affects the government's bargaining power and has an impact on the tension between MNEs and local firms. The overall perception is that the tension with local firms tends to decrease as a result of these activities, even though there are some transparency concerns that have the opposite effect on other firms that are not benefiting from the increased spillovers. The view that tension decreases is supported by the perspective of local government-controlled firms' directors:

"From the moment government hears the firms and creates this forum of discussion, the tendency is for the tension to decrease. You can see that there has been new legislation, there have been some regulations, some policies to attend to the concerns of local firms (...) the legislation is always important because it clarifies, you have rules, it creates some predictability (...) from the moment you say 'legislation says this' there is no more discussion in principle." [LG1B]

"I think it tends to decrease, because foreign firms, nowadays, associate for instance with AA1, trying to understand its concerns and make them partners, and foreign firms already understood that they cannot arrive here and impose different rules. They have to integrate (...) and they help to reduce the tensions most of the times, looking for solutions for the problems they might encounter (...) they help to reduce tensions." [LG2A]

"First it diminishes the tension, because the influence itself allows for MNEs and local

firms to understand what are the aspirations of the civil society and increase the benefits because at the end of the day, if they are included and if civil society is included then it maximises the benefits to the country." [LG2B]

The managing director of FF2, FF2A also identified the tension as decreasing:

"I think that if a company pays attention to what these issues are and they make efforts to address them, I think that they develop a reputation over time and you can reduce the tension. But if you ignore it, the tension will be there and these companies, and/or organisations, will definitely make their dissatisfaction known" [FF2A]

On the other hand, FF2B was quite evasive in attributing a directionality (increasing or decreasing) to the tension but hinted that due to political lobbying there is an increased tension among those entrepreneurs who see the amount of business that goes to entrepreneurs with political connections:

"They always say that who gets business are those that are connected to the political power." [FF2B]

From a local private firm perspective, the chairman of the board of one of the companies in the business grouping LP1, interviewee LP1A, also identified the tension as decreasing as a result of using bargaining influence on government whereas the CEO of LP1, interviewee LP1B, had a different position, seeing the tension as increasing:

"They are public enemy number one [MNEs and those few entrepreneurs that use political lobbying]. I'll give you an example. I'm one of those that looks eye to eye with FF2, for instance, that does not want to give us natural gas, only wants to give natural gas in 2035, our own natural gas, for the development of our own industry. I've started to receive for some months now, telephone calls from NGOs funded by [REDACTED - COUNTRY OF ORIGIN OF FF2] asking me about certain personal businesses, if I have foreign accounts, etc. So I have started receiving that pressure. I'm not trying to imply a conspiracy theory. I'm giving examples of suffering in my own skin of postures and pressures received because these people become their [MNEs] public enemy number one, making the point of informing you that either you voice down or we'll create confusion." [LP1B]

The different views above from LP1A and LP1B might be related to the different experiences and exposure to the posited tension: LP1A has had extensive experience in dealing with MNEs in the past role as a cabinet minister, whereas LP1B is a younger generation entrepreneur and currently has a more executive role in LP1.

From the other local private firm perspective, the managing director of the local investment holding LP2, interviewee LP2A who had previously identified the most effective lobbying being from foreign rather than local firms, saw the effects of lobbying as diminishing the tension between MNEs and local firms in particular deals but clearly evidenced an increasing tension overall with other local entrepreneurs due to a lack of transparency in how certain business deals are realised:

"These lobbies that come from the outside to impose certain businesses or to support certain businesses have the collusion of local firms. So in that aspect there is absolutely no tension. On the contrary, there is convergence of interests. But the transparency is not there (...) and another thing, it is government that is doing these businesses. They gave no chances to privates to participate (...) There is a discrimination from the fact that government has not understood yet, that is necessary to give opportunities to local firms and local entrepreneurs to defend the local interests." [LP2A]

LP2B also had a positive impression of the effect of lobbying on decreasing the tension between MNEs and local firms when AA1 uses its bargaining influence but also believed that a lack of transparency inherent in lobbying from politically connected local entrepreneurs also increased tensions:

"I think that it can only improve, if instead of you handling every single one individually, you handle with an organisation [AA1] that handles things in an impersonal way for the entire sector, it is easier to solve the questions by this way." [LP2B]

"That is everyday [lobby from local entrepreneurs], because here we work with contacts, it is all with connections and contacts (...) that itself does not favour transparency, and transparency is fundamental to develop things and give chances to everyone that has capacity." [LP2B]

This lack of transparency was also evidenced by AA1A, the managing director of the economic association AA1:

"Unfortunately what we see is that not everything is open (...) using of this component of knowing, lobbying, influence that an entrepreneur has with someone in government, or someone from government that is connected to a project in a camouflaged way." [AA1A]

The view that the usage of lobbying or bargaining influence from some parties has an effect of increasing the overall tension was shared by FF1B who also said lobbying increased benefits for local parties:

"If I have to weigh, I think it increases the tension, it is not levelling the playing field. If everyone has an equal chance of doing business, I think that's were the lowest tension is." [FF1B]

"It depends on the type of relationship that is formed. I think that if it is an inclusive type of relationship it can be beneficial." [FF1B]

The other interviewee of FF1 also confirmed that with the use of this bargaining influence both the tension and benefits from spillovers increase:

"It is definitely increasing (...) I think the benefits are increasing and the tensions are increasing. So both of that it is true." [FF1A]

Despite conflicting views on the effects on the tension between MNEs and local firms, the overall perception among all respondents was that the use by locals of bargaining to influence government increased benefits from spillovers to the local economy.

5.6 Summary of findings and results

In summary, the interview data supports the existence of tensions between MNEs and local economic actors. Four main reasons were found to be potential causes of the posited tension:

- i) Local firms seeking benefits by wanting to work and provide services to MNEs but MNEs using foreign service providers because of a lack of capacity in the local private sector, thereby further increasing the tension;
- ii) MNEs avoiding local partnerships and shareholding;
- iii) MNEs failing to develop domestic markets;
- iv) MNEs seeking to maximise profits and minimise the payback periods, while domestic firms seek local benefits.

In general, it could also be observed that respondents from local government-controlled firms demonstrated a tension reliever approach, whereas those from the private sector did not. The latter's overall perception with regard to the objectives of MNEs in natural resource rich countries was more hostile, increasing tensions. The build-up of this increased tension leads to actions by local firms, which include mostly lobbying for greater benefits from the government. This, in turn, can lead to changes in legislation that are likely to generate higher local content benefits at the expense of MNEs. Another strategy that was identified and sought by local firms is to take advantage of the need some MNEs have in wanting local partners to overcome the *liability-of-foreignness* and to offer local knowledge. Such partnerships facilitate spillovers to the local firm.

With regard to whether the intensity of the posited tension is higher with local private or informal HGPs or with local government controlled firms or formal HGPs, the evidence shows that the tension is greater with the private sector. The main reason for this is that formal partnerships of government already have in place mechanisms that force the participation of these firms in large developments in the country, whereas private firms have to endure challenges to be able to participate in large development projects.

Regarding the effects of a more relational approach rather than a purely transactional approaches to generating local spillovers, local private firms demonstrated a general perception that MNEs would embark in a similar approach, even if, in theory, it was better and would reduce tensions.

There was a strong emphasis from local private firms on calling for government to take a leading role in enabling benefits for them from MNE investments rather than believing that a more relational approach would do so. On the other hand, local government

controlled companies turned out to be more optimistic about the benefits of a more relational approach. An interesting additional finding was that MNEs from western countries, being rooted in a more individualistic culture, are less prone to engage in a relational approach with local firms, whereas those from the east were more likely to do so, creating more opportunities for spillovers from inward FDI from this region.

In relation to the effects on the tension by the use of bargaining influence, the overall perception was that the existing political lobbying, either from local firms or from foreign firms, has a direct effect on the posited tension between local firms and MNEs. Two pivotal actors play a fundamental role in the changes of bargaining power of government. These were identified as being civil society and a business association that has a direct line of communication to government. In particular, the actual effect of the use of lobbying and voicing of concerns to government by local firms has an effect on the bargaining power of government and on the tension between MNEs and local firms. The overall perception was that the tension with local firms tends to decrease, even though there are some transparency concerns that are likely to negatively affect companies that are not politically connected and thus not benefiting from the increased spillovers.

In an overarching view, there was a generalised perception that there still exists a low level of awareness and capabilities of local firms to understand and capture benefits from spillovers, given the underlying context of a low-income developing economy as is the case of Mozambique. Noteworthy was also the difference observed in one particular case, between the perception of the posited tension and its mediating mechanisms of the two interviewees of FF2, being one foreign and the other local national, in which the local national demonstrated a stronger attachment to the interests of the country compared to the interests of the company, suggesting that there exists a tension asymmetry depending on individual vested interests in spillover recipients.

CHAPTER 6 Discussion of findings and results

The purpose of the study and research presented herein is to provide a better understanding of the potential causes of a tension between MNEs and host-country local firms, in particular those that are host-country government partners (HGPs), whether formally through specific mandates from government, as is the case with SOEs, or informally represented by firms with strong political connections. The study sought to understand better the mechanisms that mediate the posited tension between different economic actors.

This chapter provides an in-depth discussion of the findings and results presented in Chapter 5 in light of the comprehensive extant literature review presented in Chapter 2, whilst seeking to refine the research propositions and answer the research questions posed in Chapter 3. The chapter is divided into subsections that relate specifically to the research propositions and questions presented in Chapter 3. As the presented study is of a qualitative nature, the propositions posited herein, resulting from refinements of the research propositions and from answering the research questions in Chapter 3, should nonetheless be confirmed through hypothesis in a future quantitative study.

6.1 Research Proposition 1

A tension exists between MNEs and HGPs because of dyadic contrasting objectives: a) MNEs seek to maximise profits, whereas b) HGPs seek local benefits from spillovers.

6.1.1 Analysis of tension and potential causes

With regard to the potential tension between MNEs and HGPs, even though this posited tension was conceptualised differently by interviewees, the results presented in Chapter 5 show evidence of its existence, either by direct quotes from the respondents comments that suggest tensions. Four main reasons were uncovered as potential causes of the posited tension, listed in order of importance:

- Local firms seek benefits by working with and providing services to MNEs but MNEs tend to see these companies as not being able to deliver the type and quality of services they require. This lack of local capacity drives MNEs to

procure those services outside the local economy, which further increases the tension;

- Local companies and MNEs have different priorities. MNEs seek to maximise profits and minimise the payback terms of revenues to investors, whereas local firms seek more local benefits from MNEs and are not concerned about the profits and timeframes of the foreign operations;
- Local private firms perceive MNEs to be avoiding local partnerships and shareholdings;
- Local firms perceive that MNEs avoid developing the domestic market.

The interviews conveyed that, in a lower-income developing economy such as the underlying country of analysis (Mozambique), there is a general lack of awareness of potential benefits from spillovers of inward FDI and lack of capabilities to absorb spillovers (Meyer & Sinani, 2009). Meyer and Sinani (2009) argue that this lack of awareness is emphasized due to the absence of direct market competition, as local firms often serve local mass markets, whilst foreign investors seek mostly low-cost labour and natural resources in low-income developing economies. Their aim in some sectors such as oil and gas is to serve export markets and premium segments while neglecting domestic and *bottom-of-the-pyramid* markets (Meyer & Sinani, 2009). The same might not, however, be applicable to all other types of MNEs and their target markets, such as basic consumer goods for instance.

This view supports the finding that local firms believe MNEs avoid developing domestic markets. But Meyer and Sinani (2009) do not identify this as being a particular source of tension. Moreover, Meyer and Sinani (2009) say that this market dissimilarity lowers the awareness level of local managers of spillovers but that spillovers are potentiated owing to demonstration effects and a large gap in non-proprietary knowledge, where local firms can benefit from knowledge transfers that occur through labour market exchanges and local firms copying MNEs' technologies, processes, and products (Eden, 2009). However, it should be noted that these findings cannot be immediately generalised as they may be dependent on the type of industry, whether it is an extractive and export oriented industry or, for example, a consumer goods industry, and on the underlying host-country context and its level of economic development.

The finding related to local firms wanting to provide services but not being hired to do so because of a lack of capacity, with MNEs tending to procure those services externally, appears to contradict the direct potentiation of spillovers due to a large gap of non-proprietary knowledge (Meyer & Sinani, 2009) and local firms copying technologies, processes, and products of MNEs (Eden, 2009), as defended in the

extant literature. Indeed, spillovers inherent to service provision from locals to foreign MNEs is associated with vertical and backward linkages (Liu et al., 2009) which happen in local labour market exchanges with some local service providers ending up doing work for the large extractive MNEs. This backward linkage is also in line with Blalock and Simon (2009), who found that recipients in upstream vertical linkages benefited more than local competitors. But as was found from the data, the tendency of MNEs to bring other foreign service providers to do the works creates another indirect source of spillover tension with those service providing companies that will typically also not associate with local firms unless they need to overcome the *liability-of-foreignness* (Sun et al., 2010; Zaheer, 1995) when they are not contracted directly by the extractive MNEs.

Notably, the finding that local private firms perceive MNEs as avoiding local shareholding and partnerships does not necessarily contradict the extant literature that studies foreign entrants overcoming the *liability-of-foreignness* (Sun et al., 2010; Zaheer, 1995). Studies have found that foreign entrants typically develop close ties to a whole set of the upstream and downstream politically connected bodies, including local suppliers, domestic distributors, and institutional customers or establish strategic alliances and joint ventures (JVs) with local SOEs (Sun et al., 2010). Indeed, it was found in this research that in the specific cases of the sample used herein, those large extractive industry MNEs typically form partnerships with local SOEs, either by choice or because it is made mandatory by the host government. Nonetheless, it is difficult to generalise, as it will be seen further on in section 6.2 that some local private firms also actively seek to form partnerships with service providers that are not known to the extractive MNEs, in order to be able to leverage their technologies, whilst the foreign firm leverages the local market knowledge partners bring to the table, their local footprint, access to distribution assets as well as local business networks and political contacts (Eapen, 2012).

Interestingly, the potential cause related to the dyadic and opposing view of the spillover concept, where the profit maximisation of the foreign firm contrasts with the desire to generate more local benefits of the host-country firms, is in line with the literature. In particular, Meyer (2004) posited that “MNEs are profit maximising, and thus naturally are not interested in creating benefits for others without being paid for it” (Meyer, 2004, p. 260) which supports the finding. However, attempts to shorten the payback period and project execution timeframe that drives the strategic actions of MNEs was not emergent in the literature review. Some of the abovementioned constructs are naturally intertwined, as the timeframe perspective and need to minimise

the investment payback period also drive the strategic actions of MNEs to procure required services externally rather than waiting for local companies to build suitable capacity.

6.1.2 Conclusion

As carefully reviewed in Chapter 2, tension in a competitive context is a dyadic construct between two firms, describing the state of latent strain between two firms that anticipate the tipping point from a static interaction state to a dynamic set of competitive actions between them (Chen et al., 2007; Chen & Miller, 2012). Moreover, it was seen that these tensions can be likened to an energy build-up from previous interactions and forces and once it reaches a certain threshold, it triggers rivalrous actions (Chen et al., 2007; Chen & Miller, 2012). In a vertical spillover context, as in the case presented herein, this tension, which is not defined in the extant literature, can be similarly conceived of as an energy storage system that builds up as a result of two things: local firms not seeing benefits from spillover of inward FDI and the potential unhappiness of MNEs seeing their profits being eroded because of pressure to contribute to local economic development. Once a certain threshold is met, it results in a dynamic set of actions from local economy actors, that influence the bargaining power of government to drive shifts in policy that are beneficial to local firms.

The in-depth discussion presented above of the results pertaining to Research Proposition 1 that was posited in Chapter 2 allows for the proposition to be refined as follows.

Proposition 1. A tension exists between MNEs and HGPs with regard to the realisation of spillovers because of the following set of dyadic contrasting objectives:

- a) Local firms seek benefits from work with and providing services to MNEs but the lack of local capabilities coupled with the investment timeframe drives MNEs to procure those services externally rather than waiting for local firms to build capacity;
- b) MNEs seek to maximise profits and minimise the investment payback period, whereas HGPs seek more local benefits, which can also include the development of domestic markets and local shareholding and partnerships, not typically sought by export-oriented MNEs.

The findings pertaining to Proposition 1 are carefully illustrated in Figure 1.

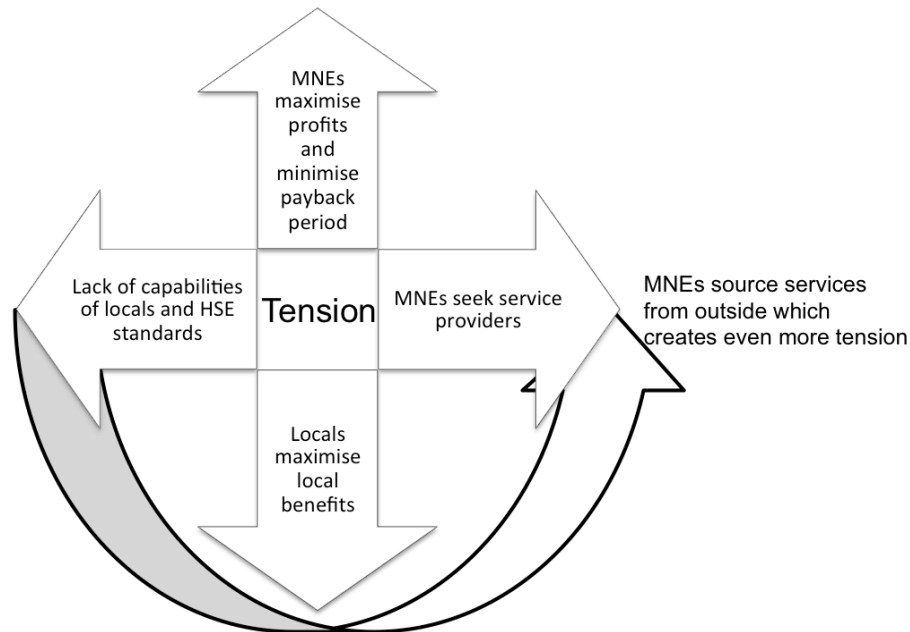


Figure 5 - Tension between MNEs and local firms and its causes. The contrasting dyadic objectives of MNEs and HGPs are illustrated in the vertical axis. The tension reinforcing link from the lack of capabilities of local firms to provide services to MNEs and the latter seeking service providers externally, is illustrated by the feedback arrow connecting the two ends of the horizontal axis.

6.2 Research Question 1

How do local firms that are host-country government partners leverage the tension with MNEs to maximise benefits from spillovers?

6.2.1 Analysis of the strategies used by local firms to maximise benefits obtained from spillovers

Two main strategies were identified in Chapter 5 that are used by local firms to maximise benefits obtained from spillovers: one related to creating partnerships with foreign firms, and the other related to lobbying and putting pressure on government to create measures to protect local companies and create opportunities for them to grow.

6.2.1.1 Political lobbying

In terms of lobbying and claiming more benefits from the government, the overall perception gleaned from the results, was that local firms are actively lobbying the government to introduce measures that will enable them to absorb more benefits from spillovers. Interestingly, these claims for more official intervention emerged mostly from the interviews with the private firms, both very successful in local market terms, and which by virtue of both cases analysed having former cabinet ministers and highly connected individuals in top roles in their organisations, can be considered to be in informal partnerships with the government. In particular, both former cabinet ministers,

who still participate in several decision forums in the country, clearly recognised the challenge of enabling local firms to grow as being more a challenge for the government than for the firms.

Even though they did not clearly state that they actively engage in political lobbying activities, it can be deduced from their reasoning and from the knowledge that both still participate actively in decision forums and advisory roles to government, that these firms are lobbying to better position themselves to obtain more spillovers from inward FDI. Moreover, the CEO of LP1, who is the son of a former cabinet minister and a politically connected individual, evidenced a strong support of a group of entrepreneurs, himself included, in their lobbying efforts by raising the issue of trickle down benefits from MNEs to local companies with the presidential candidate for the ruling party ahead of the 2014 presidential elections in Mozambique, who was, in fact, elected as president later. These findings support the recognised importance of valuable political connections in the extant literature (Danis et al., 2009; Lawton et al., 2013; Okhmatovskiy, 2010) as a critical element to business success and in particular that they provide “an opportunity to influence these policies by facilitating communication with policymakers” (Okhmatovskiy, 2010, p. 1025).

Nonetheless, as discussed in the literature review presented in Chapter 2, the concept of political embeddedness present in the literature (Danis et al., 2009; Lawton et al., 2013; Okhmatovskiy, 2010) is more related to the broader objectives of increasing firm performance than to active strategies that mediate spillovers. The research conducted herein further ties the concepts of political embeddedness and political lobbying to the spillovers perspective by identifying lobbying as an active strategy used by local firms to increase the benefits of spillovers from inward FDI.

6.2.1.2 Partnerships with foreign MNE service providers

In terms of partnership creation, one of the strategies identified is a local firm partnering with foreign service providers that are also MNEs to provide services to the large MNEs operating in natural resource extraction and taking advantage of the recognition of the value that a local partner can bring. The latter perspective is supported by Eapen (2012) who identified that during the transfer phase of spillovers, reciprocal benefits from the two parties are mostly sought, being not necessarily and solely of a technical nature, but including local market knowledge, access to distribution assets as well as access to local networks and political contacts (Eapen, 2012).

The abovementioned “value of having a local partner” and reciprocal benefits can also be linked to the *liability-of-foreignness* concept (Sun et al., 2010; Zaheer, 1995) that

foreign companies need to overcome when entering a new market. To do so, foreign entrants tend to embed themselves in the local political context and networks through organisational level connections, either by establishing strategic alliances or joint ventures with local SOEs (Sun et al., 2010; Zaheer, 1995), which supports the finding currently under analysis. Nonetheless, the effective realisation of spillovers to local firms depends also on the underlying institutions, as interestingly argued by D. Li, Miller, Eden, and Hitt (2012) who say that when the rule of law is weak, the foreign partner will be less motivated to share knowledge or might implement protective measures to prevent knowledge leakages, as opposed to when the rule of law is strong, spillovers are potentiated. Strong rule of law tends to create a better environment for spillovers (D. Li et al., 2012).

6.2.2 Conclusion

The results discussed herein do not seek to illustrate the full repertoire of strategies available, or that are in use by local firms in developing or emerging economies to maximise benefits from spillovers of inward FDI. Instead, and given the underlying context, this study provides an overview of two strategies that are used and were identified by the research presented herein. The findings cannot be generalised until an empirical and quantitative study can be conducted in future research.

Thus, and answering Research Question 1: “**How do local firms that are host-country government partners leverage the tension with MNEs to maximise benefits from spillovers?**”, the research findings suggest that in a natural resource-rich developing economy, local firms tend to use political lobbying activities to influence and put pressure on government to create more local protectionism policies. Based on these protectionist policies, these local firms then seek to establish partnerships and joint ventures with foreign MNEs to provide services to them in the host country to other natural resource extractive MNEs, and in doing so absorb spillovers through capacitation and knowledge transfer.

6.3 Research Question 2

Where is the posited tension and potential benefits from spillovers greater:
in formal or informal partnerships with government?

6.3.1 Analysis of the differentiation of tension between private firms and local government-controlled firms

The overall perception that emerged from the results presented in Chapter 5 was that

the tension is greater between MNEs and the private sector than it is with formal partnerships with government. The main reasons uncovered in this research are that in formal partnerships with government, or with local government controlled firms or SOEs, there are already mechanisms in place that force the participation of these firms in large developments in the country, whereas private firms or with informal partnerships with government, have to try much harder to engage with such projects. With regard to the potential benefits from spillovers, the overall perception gathered from the data was that the benefits are expected to be greater for private firms than for local government controlled firms. Only one of the cases found the benefits to be greater for local government-controlled firms.

In light of the concept of *liability-of-foreignness* (Sun et al., 2010; Zaheer, 1995), in which foreign firms tend to embed themselves in the local country political context and networks by establishing strategic alliances and joint ventures (JVs) with local SOEs (Danis et al., 2009), it can be inferred from the literature that in emerging or developing economies, owing to significant institutional voids and the need for MNEs to establish those linkages, the tension with formal partnerships of government is lower compared to the potential tension with other local private firms.

Moreover, Okhmatovskiy (2010) notes that state-owned assets that the government is reluctant to privatise, are often managed by SOEs in emerging economies, whilst local managers rely particularly on influential and political connections in these centralised, bureaucratic and highly regulated environments that are characteristic of emerging and developing economies (Danis et al., 2009). In this sense, a tense competition between MNEs and local private firms for assets controlled by the state can also be inferred to be in line with the findings presented herein. That is, that the tension is expected to be greater between MNEs and local private firms, or informal partners of government, compared to that between MNEs and local government-controlled firms.

Interestingly, the findings also suggest that part of the reason for the reduced tension with local government-controlled firms, is that in order to undertake specific economic activities that fall under the domain of particular SOEs, the MNEs have no alternative but to reach an understanding with those entities. For local private firms, there are several alternatives for the MNEs to choose from, hence the competitive tension for the realisable benefits being higher.

On the other side, with regard to the actual realisable benefits from spillovers, the findings suggest overall that these are higher for local private firms. This is not in line with previous findings in the literature that found SOEs in China benefit more from

vertical spillovers than non-SOEs in China as a result of higher capabilities, more resources and long-term government support (Liu et al., 2009). Nonetheless, it can be argued that the impact of benefits from spillovers is expected to be greater where the tension is higher, specifically because firms that experience increased tension are more motivated to devise specific actions and strategies to alter the status quo, whereas firms that experience little or no tension are more passive.

6.3.2 Conclusion

The discussion presented so far allows a conclusion that the tension between MNEs and local firms with regard to the capture of benefits of spillovers from inward FDI is expected to be higher with local private firms or organisations with informal partnerships with government compared to local government-controlled firms. This increased tension exists because of the lack of formal mechanisms that drive and force the participation of private entities in the inward FDI projects, whereas local government-controlled firms enjoy a higher protectionism from government. This elevated tension also spurs more competitive actions from the local private firms or informal partnerships of government, which can lead to more informal lobbying strategies to potentiate particular benefits from large foreign investments. Thus, seeking to answer **Research Question 2: “Where is the posited tension and potential benefits from spillovers greater: in formal or informal partnerships with government?”** Taking into account the above discussion, the following proposition can be drawn:

Proposition 2. The tension between MNEs and local firms is higher with local private firms than with local government-controlled firms because of stronger government support and formal mechanisms that enable the participation of local government-controlled firms in the inward FDI projects. The benefits from these spillovers are greater where the tension is higher because this increased tension motivates firms to devise specific strategies to potentiate spillovers.

6.4 Research Proposition 3

The tension between MNEs and HGPs is mediated by the awareness-motivation-capabilities of both firms to engage in relational, rather than transactional or rivalrous, interaction. If firms engage this way, it lessens the tension and enhances the benefits from spillovers.

6.4.1 Analysis of a relational vs. transactional approach to mediation of tension and spillovers

From the results presented in Chapter 5, it was possible to infer that there was a significant difference in the way private firms and local government-controlled firms perceive the relational approach with foreign firms. Even if in theory a more relational approach could yield diminished tension, local private firms tend to believe that the hypothesis of using such an approach does not even apply because of a general scepticism that MNEs would behave similarly. On the other hand, local government controlled firms are more optimistic about a more relational approach based on their own experience. There was also a strong belief among local private firms that government could play a more active, interventionist role to leverage more benefits for them rather than relying on a more relational approach.

The literature review presented in Chapter 2, indicated that the low similarity of experiences and limited interaction between managers of local and foreign firms in lower-income emerging economies, as is the case of Mozambique, reduced local managers' awareness of the potential impact of inward FDI on their business (Meyer & Sinani, 2009) and posited that it would also affect their awareness to engage in relational rather than rivalrous interactions. However, from the results presented in Chapter 5, it was possible to observe that from a local private firm perspective that the awareness component is present but the motivation to engage in a more relational interaction does not exist, mostly because of the scepticism of local private firm managers that MNEs would embark on a similar approach and would not depart from the priority of maximising gains, as opposed to adopting a *lift-all-boats* philosophy.

An increased awareness and motivation to use a relational approach was demonstrated homogeneously by the local government-controlled interviewed firms, which appears to contradict Chen and Miller (2014) who posited that flat organisational structures with more open distributed information processes, as opposed to the more centralised and bureaucratic structures such as those that typically exist in government controlled entities, are more likely to have the necessary knowledge to engage in relational competition. Nonetheless, Chen and Miller (2014) do note that firms whose top managers are more stakeholder-oriented and adopt a long-term perspective are more likely to engage in relational competition and see benefits from such approach. On the other hand, it can be argued that managers of SOEs are typically compensated on performance scores that measure the wellbeing of a larger stakeholder group, rather than looking purely at financial performance. It must be noted nonetheless, that private firms can also have a strong stakeholder orientation (Chen & Miller, 2014).

It can be deduced from the answers of the interviewees that the differences observed between local private firms and local government-controlled firms in terms of increased awareness and motivation to engage in relational interactions, observed in the latter case, can also be correlated to the decreased tension posited in Proposition 2 in section 6.3. This reinforces the proposition that if firms are more aware and motivated to engage in relational interactions, and effectively do so, the tension is reduced.

With regard to the effect of a more relational approach on the potential benefits of spillovers, and given the scepticism of some of the respondents with regard to the positive effects of a more relational approach, this scepticism transposed as well to the potential benefits to be obtained. Nonetheless, the evidence from the majority of interviewees that identified the relational approach as solving tension problems, allows a finding that is in line with the literature that argues that more long-term benefits and better performance is achievable by firms that engage in relational, rather than rivalrous, competition (Chen & Miller, 2014).

The additional finding that MNEs that come from western countries are less prone to engaging in a relational approach with local firms than their counterparts from eastern countries potentiating the spillovers from inward FDI, is also supported by Chen and Miller (2014) who say this is because of their different cultures – one being more individualist in their approach and the other having a more collectivist culture and stakeholder view.

6.4.2 Conclusion

The discussion presented thus far on the impact of a more relational interaction between local firms and foreign MNE investors, as opposed to a more rivalrous or transactional interaction, and its mediation on the tension and spillovers benefits, allows for Research Proposition 3 to be redrawn as the following proposition:

Proposition 3. If local firms and foreign MNEs engage in a more relational than transactional interaction, the tension is lower and benefits from spillovers are enhanced, whereas if they engage in a more transactional interaction, the tension is higher and benefits from spillovers are dampened.

6.5 Research Proposition 4

The tension between MNEs and HGPs is mediated by the network bargaining power that HGPs and MNEs have in the HGPs ↔ Host country government ↔ MNEs network and the motivation that HGPs

have to use their bargaining influence to influence outcomes in government policy that enhance benefits from spillovers.

6.5.1 Analysis of political lobbying and complaining by locals

The main finding that emerged in Chapter 5 was that political lobbying is exerted by both local firms and foreign firms, and has an effect on the posited tension between them. It was also found that two central actors play a fundamental role in influencing the bargaining power of government, being civil society and a business association that has a direct line of communication to government. The finding of additional actors having an influence in the inward FDI spillover dynamics is in line with the arguments of Nebus and Rufin (2010), who extended the roster of players and actors in traditional bargaining power models (Fagre & Jr., 1982; J. Li et al., 2013; Ramamurti, 2001) from home and host country governments and MNEs, to include non-public actors, particularly NGOs, local firms, and industry associations (Nebus & Rufin, 2010).

The particular case of the business association AA1, emerging as a critical player in influencing inward FDI spillovers is in concordance with Nebus and Rufin (2010), who convey the idea that multiple actors with similar and aligned bargaining outcome desires and policies may form a coalition, acting together as one actor. They further add that the collective bargaining power of the coalition may be greater than the sum of the power of each actor, particularly if the members of the coalition have a complementary basis of power (Nebus & Rufin, 2010). This is reflected in the view of LP2B for instance: *“We cannot each entrepreneur go and talk to the Ministry responsible for the project we have (...) AA1 is a mechanism of each one, inside each sector that must say to them what are each one's concerns. They have the function of gathering everything”*. Interviewee LP2A also conveyed the idea of the collective bargaining power being greater than that of each individual actor power: *“It is through AA1 that all those questions are put (...) this is from an institutional point of view. From a private point of view, it is very difficult. There are lobbies naturally that form by friendship, some influence, but it is very difficult”*.

Nebus and Rufin (2010) also highlight that an actor may be motivated to use what means are available to it to influence policy when it is not part of a coalition. This was observed in LP1B's position that regarded AA1 influence as being ineffective, and said that government should place entrepreneurs such as himself in the teams negotiating issues of domestic development with MNEs. Nonetheless, as interestingly argued by Nebus and Rufin (2010), if this same actor was a member of a coalition, believing that the desired outcomes of other members in the coalition are similar and that those

members were likely to employ adequate resources to achieving the same goal, that actor might not be willing to allocate its own resources to influence the outcome, regardless of the importance of it (Nebus & Rufin, 2010). This reliance on the coalition collective bargaining power and application of resources was also observed in the views of LP1A and LP1B above, in which the interviewees demonstrated a stronger belief in the effectiveness of collective power than individual power.

In a general overview of the findings, it could also be observed that the overall perception of the private sector was more hostile with regard to the objectives of MNEs in a host-country and realisation of spillovers, whereas local government-controlled firms respondents demonstrated a tension reliever approach, further supporting the proposition of a tension mediation role of government and, to a lesser degree, of local government-controlled firms. Interestingly, this opposing perception of the tension from different parties is in line with the concept of tension asymmetry (Chen & Miller, 2012) that theorises that it is unlikely that two parties will perceive the underlying tension equally. Noteworthy was also the view shared by a local government-controlled firm director, LG1B, who said that *"it is always needed some protection but it has to be done in a plan, because you can protect [locals] and damage foreign investment"* is in line with the literature, where it is recognised that regulatory bodies exercising excessively increasing control over MNE activities might actually reduce the inflow of FDI (Holmes, Miller, Hitt, & Salmador, 2013).

6.5.2 Analysis of civil society as a source of bargaining power

The second significant finding related to the network bargaining power, which showed civil society to have a pivotal role in the relationships considered herein. Even though not specifically outlined by Nebus and Rufin (2010), civil society can be considered to be part of a group of actors who are stakeholders in the entire network of bargaining power under consideration. Interestingly, civil society emerged not only as an actor that has its own concerns and bargaining outcome desires, but also as a potential basis of power for other actors, conceding legitimacy to use or justify actions based on civil society claims. In particular, government can justify certain decisions based on civil society's concerns as evidenced by LPA1's view: *"Because this claiming that civil society does, ends up giving advantage to government to demand: 'now see, people are protesting and claiming'."* Moreover, as interestingly argued by FF2A, civil society exerts a considerable amount of political power over government since it is its main voting base in a democratic country: *"I think that Frelimo firmly believes that if they do not deliver on that, they will lose their grip on power."*

The findings also show that MNEs also understand and are able to shape civil society power, which is also not clearly outlined by Nebus and Rufin (2010). The research results identify foreign aid agencies as defending bargaining positions that are favourable to MNEs. Nonetheless, Nebus and Rufin (2010) do note that NGOs (of which foreign aid agencies can also be considered to be part) often exercise influence by framing public discussion and debate on an issue and that actors with knowledge power can influence other actors by changing public perception on issues such as local content and benefits obtained by local firms and the population in general from FDI spillovers. Indeed, as reviewed in Chapter 2, often MNEs do not rely solely on their competitive and firm-specific advantages to secure investment deals, but also on promises to develop local communities, with more advantageous CSR agreements to help develop local communities, employment, education and training of locally recruited staff (J. Li et al., 2013).

6.5.3 Conclusion

The discussion of the findings presented thus far relates to the tension mediation by changes in the network bargaining power, suggest that the public perception of the realised spillovers to the overall economy, as seen by civil society, provides a legitimacy of power to government and local firms, and in particular HGPs, to justify actions and policies that increase the local benefits of spillovers from inward FDI and the presence of MNEs. Moreover, it was also found that MNEs also understand the underlying dynamics and contribution of civil society to the matter at hand, being able to shape public perception. An additional actor was identified as being pivotal in the said interactions, being a business association that represents collective bargaining power by local firms. Therefore, and given the above arguments it is possible to modify Research Proposition 4 and draw Proposition 4 as follows:

Proposition 4. The tension between MNEs and HGPs is mediated by the network bargaining power that HGPs and MNEs have in the **HGPs ↔ Host country government ↔ MNEs** network, by the motivation that HGPs have to use their bargaining influence to influence outcomes in government policy that enhance benefits from spillovers, and by public perception of civil society of the spillover outcomes.

6.6 Research Question 3

How does the use of bargaining influence affect (increase or decrease) the tension between MNEs and HGPs and benefits obtained from

spillovers to local firms?

6.6.1 Analysis of the effects of lobbying and complaining on the tension and benefits from spillovers

The findings presented in Chapter 5 with regard to the effects of lobbying and complaining on the tension, revealed that, overall, the tension between MNEs and local firms tends to decrease due to an alignment of expectations and objectives even though there are some concerns of transparency and correctness of the actions. Even though it has been noted that often MNEs do not solely rely on competitive and firm-specific advantages to secure their positions in a country, but also on CSR agreements to develop local communities (J. Li et al., 2013), the scope of interaction discussed herein surpasses the scope of stakeholder awareness of MNEs, encompassing interactions in the marketplace such as product competition, suppliers, buyers and development of domestic markets with local players. In this sense, Chen and Miller (2014) note that there are fundamental differences between the stakeholder perspective and relational competition. Therefore, it could be expected that the use of complaining and of lobbying by locals for more benefits would cause an increased tension between MNEs and local firms, specifically because the use of lobbying does not entail a direct relational interaction between local firms and MNEs, but rather uses an indirect link to influence and cause a shift in bargaining power (Nebus & Rufin, 2010) in the negotiations between government and MNEs to positions that are less favourable to the foreign parties, consequently increasing tensions between MNEs and local firms.

With regard to the effect of the use of lobbying and complaining, the outcome was that the use of bargaining influence by locals over government has a positive effect on the increase of benefits from spillovers to the local economy. Indeed, Nebus and Rufin (2010) argue that by using its bargaining power, an actor can positively influence, if motivated and capable to do so, the outcome of a networked bargaining power situation to satisfy its preferences. Thus, it is expected that an actor can positively influence the generation of more benefits by leveraging its inherited lobbying power and capabilities, as the findings demonstrated.

It is interesting to note that as argued by Nebus and Rufin (2010), if an actor believes that the bargaining outcome of a particular issue was already likely to be in line with his or her preference or objective, regardless of its intervention, it might not be motivated to mobilise its resources to influence the outcome of that particular issue, despite its importance (Nebus & Rufin, 2010). In this regard and drawing from the discussion of

findings of the importance revealed by the industry association AA1 in the network bargaining power in section 6.5.1, it can be noted that acting as a collective bargaining actor, individually some of the actors might not be well motivated to use their own resources and bargaining power at an individual level, owing to the belief that the collective bargaining outcome will be adjusted to their preferences as illustrated by the view of LP2B: *“if instead of you handling every single one individually, you handle with an organisation [AA1] that handles things in an impersonal way for the entire sector, it is easier to solve the questions by this way.”*

6.6.2 Conclusion

The discussion and findings presented thus far revealed that overall the tension between MNEs and local firms tend to decrease, whilst the benefits tend to increase. Therefore, seeking to answer Research Question 3: **“How does the use of bargaining influence affect (increase or decrease) the tension between MNEs and HGPs and benefits obtained from spillovers to local firms?”** the following proposition can be drawn:

Proposition 5. The use of bargaining influence from locals to increase benefits from spillovers generates less tension and benefits from spillovers are enhanced, whereas inaction leads to increasing tension and fewer benefits from spillovers.

6.7 Summary of the discussion of the findings

This chapter presented a discussion of the results and findings covered in Chapter 5, drawing a set of propositions that contribute to the extant literature with novel constructs that conceptualise the tension between MNEs and HGPs with regard to the realisation of spillovers from inward FDI. This tension can be conceptualised as an energy storage system that builds up from local firms not seeing benefits from spillover of inward FDI and from a potential unhappiness among MNEs who see their profits eroded by developing the domestic economy. Once a certain threshold is met, it results in a dynamic set of bargaining power influencing actions by local firms over government to accommodate beneficial shifts in policy.

The research findings also suggest that in a natural-resource rich developing economy, local firms tend to use political lobbying activities to influence and put pressure on government to create more local protectionism policies. Based on these protectionist policies, these local firms then seek to establish partnerships and joint ventures with foreign MNEs to provide services in the host-country to other natural-resource

extractive MNEs, and in doing so absorb spillovers through capacitation and knowledge transfer. It was also inferred that the posited tension is higher with local private firms or informal partnerships of government compared to local government-controlled firms, owing to the lack of formal mechanisms that drive and force the participation of private entities in the inward FDI projects, whereas local government-controlled firms enjoy a higher protectionism from government.

As a mediating mechanism to the posited tension, it was further posited that if local firms and foreign MNEs engage in a more relational than transactional interaction, the tension is reduced and benefits from spillovers are enhanced. However, if they engage in a more transactional interaction, the tension is higher and benefits from spillovers are less. An alternative mediation mechanism was proposed, which is related to changes in the network bargaining power of all the actors involved: MNEs, HGPs and government. The discussion further suggested that the public perception of the realised spillovers to the overall economy, as seen by civil society, provides a legitimacy of power to government and local firms, and in particular HGPs, to actions and policies that increase the local benefits of spillovers from inward FDI and the presence of MNEs. Moreover, it was also found that MNEs also understand the underlying dynamics and contribution of civil society to the issues at hand as they are able to shape public perceptions. The results also showed that, overall, the tension between MNEs and local firms tends to decrease when bargaining influence is used by HGPs (by means of lobbying actions for instance) in the said bargaining power network, whilst the benefits tend to increase.

The discussed effects of the use of bargaining influence and of a more relational interaction, as opposed to purely transactional or rivalrous, and the relationship between the posited tension and resulting spillover effects is illustrated below in Figure 6. The set of resulting propositions drawn by a combination of deduction from the literature, coupled to an inductive step from the obtained data, is summarised below in Table 4.

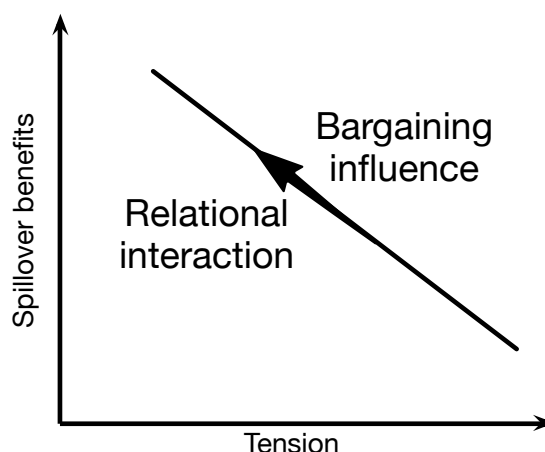


Figure 6 - Effects of the use of bargaining influence and relational interaction on the tension and benefits from spillovers that are potentially obtained by local firms.

Table 4 - Summary of the set of propositions drawn from the discussion of the findings.

Propositions	
1	A tension exists between MNEs and HGPs with regard to the realisation of spillovers because of the following set of dyadic contrasting objectives : <ol style="list-style-type: none"> a) Local firms seek benefits from work with and providing services to MNEs but the lack of local capabilities coupled with the investment timeframe drives MNEs to procure those services externally rather than waiting for local firms to build capacity; b) MNEs seek to maximise profits and minimise the investment payback period, whereas HGPs seek more local benefits, which can also include the development of domestic markets and local shareholding and partnerships, not typically sought by export-oriented MNEs.
2	The tension between MNEs and local firms is higher with local private firms than with local government-controlled firms because of stronger government support and formal mechanisms that enable the participation of local government-controlled firms in the inward FDI projects. The benefits from these spillovers are greater where the tension is higher because this increased tension motivates firms to devise specific strategies to potentiate spillovers.
3	If local firms and foreign MNEs engage in a more relational than transactional interaction, the tension is lower and benefits from spillovers are enhanced , whereas if they engage in a more transactional interaction, the tension is higher and benefits from spillovers are dampened .
4	The tension between MNEs and HGPs is mediated by the network bargaining power that HGPs and MNEs have in the HGPs ↔ Host country government ↔ MNEs network, by the motivation that HGPs have to use their bargaining influence to influence outcomes in government policy that enhance benefits from spillovers, and by public perception of civil society of the spillover outcomes.
5	The use of bargaining influence from locals to increase benefits from spillovers generates less tension and benefits from spillovers are enhanced , whereas inaction leads to increasing tension and fewer benefits from spillovers.

CHAPTER 7 Conclusion

This research report has presented novel analytical constructs relating to a potential tension between MNEs and local firms, in particular of host-country government partners (HGPs), shedding new light on the understanding of the underlying dynamics that govern the relationships and bargaining power of all actors that may benefit from spillovers to a local economy from inward FDI. Specific developing-economy characteristics such as inefficient markets, active government involvement in the economy, extensive business networking, and high uncertainty (Xu & Meyer, 2013) pose an interesting challenge for both business people and scholars to analyse, test and contrast existing theory that was developed for advanced economies, where the abovementioned features are not particularly relevant. This chapter presents a closing argument for the dissertation presented herein, summarising the main findings, highlighting the contributions made to the literature and the implications for businesses and policy makers, whilst seeking to also cover the inherent limitations of the study and newly proposed theoretical constructs. Finally, recommendations on future directions of research are provided to carry further the proposed line of research.

7.1 Main findings and conclusions

This dissertation formulated a set of propositions that contribute to the extant literature with novel constructs that conceptualise the tension between MNEs and HGPs with regard to the realisation of spillovers from inward FDI. This tension can be conceptualised as a negative energy that accumulates when local firms do not see the benefits from spillovers of inward FDI and from a potential disgruntlement of MNEs seeing their profits diminished by having to develop local economies. When this energy reaches a certain threshold, it triggers a set of actions that can influence the bargaining power of local economic actors to put pressure on government to make shifts in policy that benefit those actors. Four main reasons that underpin the existence of a tension between MNEs and local firms were uncovered, being:

- i) Local firms seek benefits by working and providing services to MNEs but MNEs identify the lack of capabilities in local firms to provide these services. This lack of local capacity drives MNEs to procure those services outside the country, which further increases the tension;

- ii) MNEs avoid local partnerships and shareholding;
- iii) MNEs avoid developing domestic markets;
- iv) MNEs seek to maximise profits and minimise the payback periods, whereas local firms seek local benefits.

The research findings presented herein further suggest that in a natural-resource rich developing economy, local firms that are host-country government partners tend to use political lobbying activities to influence and put pressure on government to create more policies to protect local companies. Leveraging these protectionist policies, these local firms then seek to establish partnerships and joint ventures with other foreign MNEs who provide services to the natural resource extractive MNEs, and via that mechanism build capacity and absorb both technical and business-practice knowledge. Interestingly, it could be observed that local government-controlled firms demonstrated a more tension reliever approach, whereas private sector firms had a more hostile attitude towards MNEs' contribution to local content.

Highlighting a distinct intensity of tension with MNEs from formal to informal partnerships of government, and more generally from SOEs to private firms, it was also posited that tension is higher with local private firms or informal partnerships with government compared to local government-controlled firms, owing to the lack of formal mechanisms that drive and force the participation of private entities in inward FDI projects, whereas local government-controlled firms benefit from greater policy protection. As a first tension mediating mechanism, it was proposed that if local firms and foreign MNEs engage in a more relational interaction rather than purely transactional or rivalrous, the said tension will be less allowing for greater benefits from spillovers, whereas if firms engage in a more transactional interaction, the tension tends to be higher and benefits from spillovers are diminished.

Specifically in this regard, local private firms were sceptical whether, even if in theory, a more relational approach would reduce tensions. They doubt MNEs would embark on a similar approach and therefore there is a strong belief that the hypothesis is null and void. Local private firms strongly believed that putting pressure on government to intervene to reduce tensions would be more effective than relying a more relational approach to ease the tension. On the other hand, local government-controlled companies were more optimistic and evidenced positive effects of a more relational approach.

An additional and alternative tension mediation mechanism was analysed, which is carried out through shifts in the network bargaining power of the main actors involved:

MNEs, HGPs and government. The analysis also shows that civil society stands out as a crucial stakeholder with a fundamental role in the bargaining network. Public perception of the lack of realised spillovers to the overall economy provides a basis of legitimacy for government and local firms, and in particular HGPs, to carry out actions and introduce policies that increase the local benefits of the said spillovers. Moreover, not only local firms understand the crucial alignment with civil society. MNEs also realise that the underlying dynamics and contribution of civil society to the local content discussions are influential, and therefore are also able to shape public perception via specifically devised public strategies. The results and findings also showed that the overall tension between MNEs and local firms tends to decrease when bargaining influence is used by HGPs, by means of lobbying actions to government for instance, in the HGPs ↔ Host country government ↔ MNEs bargaining power network, whilst the benefits from spillovers are enhanced. This is the case even though there are some transparency concerns that have an opposite effect on other firms that are not benefiting from the increased spillovers.

Despite the strong claims for more intervention from government and intense lobbying activities from local firms, there was also a generalised perception that there is still a low level of awareness and capability of local firms to understand and capture benefits from spillovers, given the underlying context of a low-income developing economy, as is the case of Mozambique. The overview of the model of the spillover-tension topology proposed herein is depicted in Figure 7. The summary of the propositions drawn herein were summarised in Table 4 of section 6.7 (on page 71).

7.1 Additional findings

In the midst of the main findings and novel theoretical constructs developed herein, two additional findings emerged from the research. Closely coupled to the analysis of the tension mediating mechanisms by a more relational approach, as opposed to purely transactional, the first additional finding indicated that MNEs that come from western countries, owing to a more individualist and capitalist culture, are less prone to engage in a relational approach with local firms than those from the east, which increases the tension and reduces the benefits from spillovers. MNEs that come from eastern countries, because of their more collectivist culture and stakeholder view (Chen & Miller, 2014), are more likely to engage in a relational interaction with local firms, reducing the tension and potentiating the spillovers from inward FDI.

The second additional finding suggests that there exists a tension asymmetry depending on individual vested interests in spillover recipients, which affects the

perception of the underlying tension. This was emergent throughout the entire scope of research questions and was directly linked to one particular case: of interviewees FF2A and FF2B, where FF2A is an expatriate from the country-of-origin of the foreign MNE FF2 and country manager of FF2 and FF2A is a Mozambican national and national content manager of FF2. In this case, the local national demonstrated a stronger attachment to the interests of the country when compared to the interests of the company.

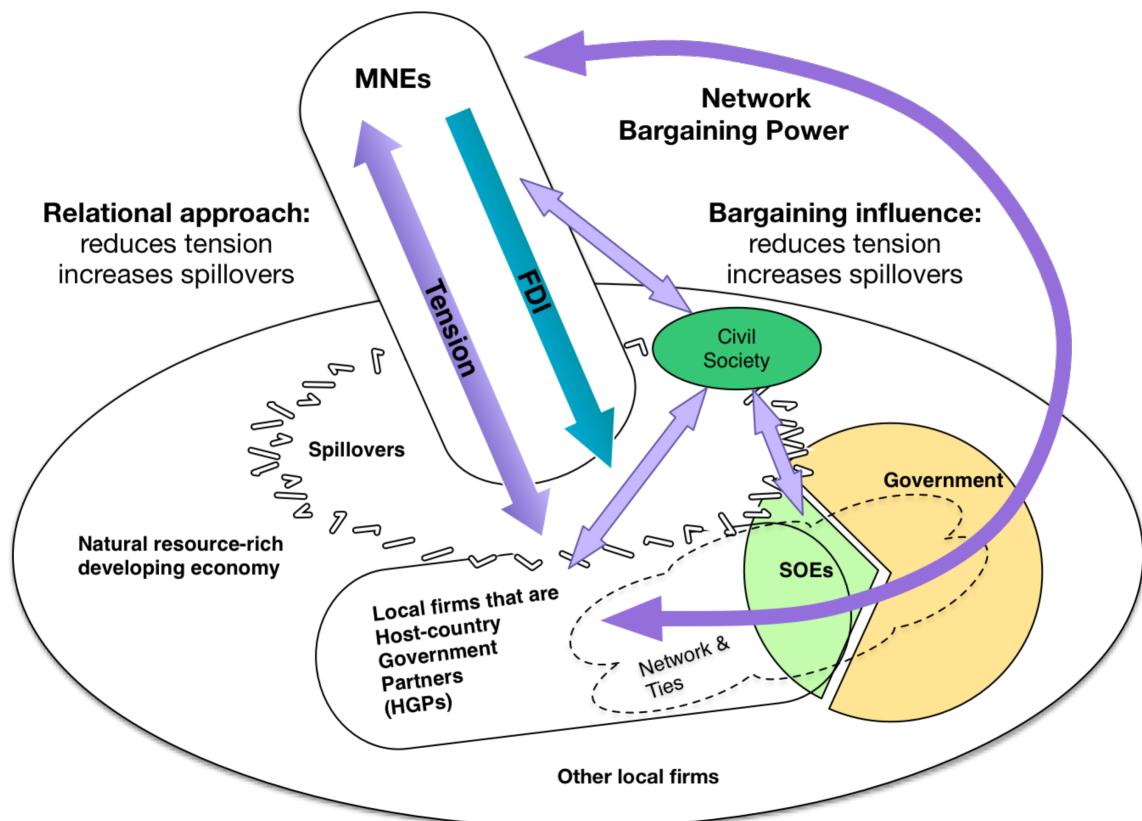


Figure 7 - Model of the spillover-tension topology. Host-country government partners (HGPs) represent local firms that are connected to government through formal or informal partnerships and network-ties and are thus able to exert influence on the network bargaining power and mediate the tension between MNEs and local firms. Source: Author's own elaboration based on the findings of the research presented herein.

7.2 Contributions

The main contributions to the literature of the dissertation presented herein are twofold. Firstly the study provides a better understanding about the potential strategies used by local firms in an emerging or developing economy to maximise benefits they obtain from spillovers of inward FDI. It clearly distinguishes between two different types of embeddedness in the local political scene – formal and informal – whilst bridging the gap identified in a recent meta-analysis review of the extant literature and cutting edge

work in the area (Xu & Meyer, 2013). Secondly, it contributes to the extant literature with novel theoretical constructs that not only conceptualise the existing tension between MNEs and local firms with regard to the realisation of spillovers, but also its mediating mechanisms.

With regard to the potential causes that underpin the existence of tension in a spillover context, four main causes were identified. Two of the four causes that closely relate to the dyadic contrasting objectives of MNEs – profit maximisation on one end and local shareholding and benefits maximisation on the other – could be predicted from the literature. The remaining two causes, which relate to service provision and lack of local capabilities, and to the disinterest in developing domestic markets by export-oriented extractive MNEs, emerged as unexpected and innovative.

The newly proposed framework brings together three theoretical lenses – competitive tension (Chen & Miller, 2012), relational competition (Chen & Miller, 2014) and network bargaining power (Nebus & Rufin, 2010) – under the central theme of spillover perspective to build an overall powerful model of the interactions between MNEs, host-country government and its local partners and firms. The overarching combined model brings out the relational interaction, as opposed to purely transactional or rivalrous behaviour between MNEs and local firms, and the use of bargaining influence (effectively political lobbying efforts) by locals to align realised spillovers to meet the expectations of locals, both as spillover enhancing and tension reliever mediating mechanisms.

7.3 Implications for businesses

The findings presented herein pose interesting challenges for businesses and their managers, both from MNEs and local firms. From an MNE perspective, it helps to understand that if left unmanaged, the rising tension with local firms, in particular the one observable in informal HGPs, can give rise to a set of dynamic lobbying actions from local firms to capture increasing benefits that were not being felt but which can affect the MNEs; business plans. With specific reference to local contracting of services, it is important for MNE managers to understand that not investing in building relationships with local suppliers of services, and building their capacity, can lead to more stringent introduction of local protectionist measures. This could be prevented by adopting a more relational and accommodating approach to local content development from the outset.

From a local firm perspective, managers can build a better understanding of the strategic moves available to them. These could include pre-empting the potential

tension through building their own capacity and acquiring technical expertise, either via their own funds or via strategic alliances and partnerships with other foreign and local service providers, taking advantage of the value that a local partner can bring through knowledge, networks and other benefits. Alternatively, local firm managers can seek to leverage their extensive local networks to influence the government to positively generate more local spillover benefits.

7.4 Implications for policymakers

The findings presented herein also have implications for policymakers who have a pivotal role in a country's underlying institutions and consequently in the development of an economy. Therefore, policymakers must be aware of if and when to intervene to impose local content requirements (LCR) policies on MNEs to generate more benefits from spillovers. Drawing on the findings of this research, one direct implication is that policymakers should take into consideration the fact that the political lobbying efforts of local firms indicate a growing underlying tension, which diminishes potential benefits from spillovers of the inward FDI. On the other hand, policymakers should foster more relational interactions between MNEs and local firms, for instance through tax incentives to compliant firms that are effectively concerned with local capacitation, as it has a decreasing effect on the underlying tension and bring about benefits from spillovers.

Nonetheless, as interestingly argued by Kwon and Chun (2009), by introducing LCR policies for MNEs, "the government of the host-country may expect employment growth, incubation and development of upstream industries, and continuous economic growth as a consequence" (Kwon & Chun, 2009, p. 121). Despite these expectations, the actual implementation of increasingly protective LCR policies may result in an unexpectedly negative outcome as it may hamper actual technology diffusion as MNEs become more vertically integrated (Kwon & Chun, 2009). Moreover, regulatory bodies exercising increasing control over MNE activities might actually reduce the inflow of FDI (Holmes et al., 2013). Thus, policymakers must have a balanced perspective and weigh up all the potential positives and negatives before enacting excessively protective policies. But they also need to intervene and introduce such policies when there are too few benefits spilling over to the local economy from the activities of MNEs and the latter are not under enough pressure to contribute to local development.

7.5 Limitations

Despite the novel theoretical contributions, the study presented herein does carry some inherent limitations naturally associated with the type of research selected, which is of a qualitative nature. Therefore, it inherits all limitations of a qualitative study as overviewed in section 4.7 Limitations in Chapter 4. One such important and noteworthy limitation is the lack of the dimension of generalizability, implying that the research findings and results discussed herein and the theoretical propositions and contributions will therefore require posterior validation through quantitative research that will allow for the generalisation to larger populations (Saunders & Lewis, 2012).

Moreover, as the underlying context of analysis, Mozambique is a politically stable country with one single political party that has ruled since the independence of Mozambique in 1975, a fact that might affect the underlying political networking dynamics. The same stability of political networks might not be found in other emerging and developing democratic countries, where more than one political force or party cyclically governs the country. Indeed, it is recognised in the literature that strong political connections may have a significant negative impact during political upheaval periods (Sun et al., 2010), calling out for strategies that buffer firms against less favourable political environments (Lawton et al., 2013).

Closely related to the underlying context, the findings discussed in this dissertation, also might only be applicable to natural resource-rich countries where MNEs seek to extract to serve export markets and not necessarily applicable to countries and market goods or commodities where the local and domestic market is attractive. In this regard, the researcher has sought brief conversations with executives from the sugar industry, for instance, where the domestic market is more attractive and found that the constructs are not directly applicable. In terms of the identified strategies of local firms to maximise benefits from spillovers, the findings presented herein do not seek to illustrate the full repertoire of strategies available to managers. Instead, and given the underlying context, this study provided an overview of two strategies that are used and were identified by the research presented herein, lacking the dimension of generalizability until an empirical and quantitative study can be conducted in future research.

7.6 Discussion of validity and reliability

According to Saunders and Lewis (2012), the validity of the entire research process and outcome is concerned with the extent to which the data collection method

accurately measure what the objectives of the research problem set out, and whether the research findings are credibly grounded in the data and are really about what they appear to be. Saunders and Lewis define reliability as the degree to which the data collection methods and analysis procedures can produce consistent findings, for instance, if used in other occasions and by other researchers in the same way. Given the sensitive nature of the topic at hand, which covers political connectedness, political lobbying, tension between parties that do not have a wish to damage relationships in the future and potentially could also reach the topic of corruption, the anonymity guaranteed by the researcher to the interviewed subjects ensured that the answers would not be impacted by fear of exposure. Moreover, the qualitative nature of research allowed gathering in-depth information for theory building, which would not be possible using quantitative methods.

The interviews were conducted mostly in Portuguese with the exception of certain English-speaking subjects. Therefore there is the possibility that certain contexts and culturally grounded views and concepts are not correctly translated. These potential translation errors and misconceptions have the potential of affecting data validity. The researcher works for the oil and gas industry in a firm that serves as a case to the analysis presented herein, which might have introduced observer error and bias and affected the reliability of the study. The purposive and theoretical sampling used in the research is also subject to the judgment of the researcher, which might have introduced subject selection bias and caused a misrepresentation of the research population.

Despite this, the interviewed subjects are mostly all relevant players in the oil and gas industry in the Mozambique – the country that serves as context to the research presented herein – and therefore likely to yield valid data. Moreover, all interviewed subjects have more experience and higher hierarchical positions than the researcher. Therefore it is very unlikely that they were keen to impress the researcher through their answers. The findings presented are also hard evidenced in the quotations of the interviewees and encompassed in an overall narrative analysis of the data.

The research methodology clearly outlined the data collection process and a four-phase detailed analysis procedure with a preliminary set of codes to initiate the data analysis process (preliminary set of codes presented in Appendix C). Therefore, and in light of the discussion presented above, and the potential threats to validity and reliability, it can be concluded that, overall, the research findings presented herein possess strong traits of validity and reliability.

7.7 Recommendations on directions of future research

The first and foremost step to be taken in future research in this subject should involve an empirical validation of the findings and theoretical constructs proposed herein. This can be achieved through a quantitative study, either through existing secondary survey data, which limits nonetheless the type of questions that can be answered (Saunders & Lewis, 2012), or by means of properly devised surveys that can obtain primary data pertaining to the topic at hand. An alternative path could be, for instance, to conduct the same type of in-depth, insight-seeking study in a middle-income emerging economy such as South Africa, to be able to identify whether the proposed constructs apply under such conditions.

An interesting question to pose in the future is to verify whether the tension between MNEs and local firms also shifts polarity according to the predicted shift of bargaining power from MNEs to host-country governments in the obsolescing bargain theory (OBT), which postulates that MNEs bargaining power erodes over time and a shift of bargaining power to government is observed once the investment of a MNE in the host-country becomes a sunk-cost (Vachani, 1995).

With relation to the network bargaining power construct, one can in the future, seek to assess the relationship between the basis of power and prominence of an actor in the network (Nebus & Rufin, 2010) as well as the tension levels and that actor's ability to maximise benefits from spillovers. Another potential direction of research can be taken in assessing the collective and firm-level tension and collective bargaining power of an industry association, whilst contrasting the increasing or decreasing potentiation of benefits absorption capacity from inward FDI spillovers from a collective perspective.

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APPENDIX A Interview guide

The gathering of data from the relevant subjects was conducted using a semi-structured interview technique (Saunders & Lewis, 2012), which is outlined in this appendix. The interview began with a free discussion about the concept of spillovers with regard to MNEs and inward FDI in a host country. Each question below was expected to generate an average of approximately five minutes of discussion. Coupled to free discussion time in the beginning and time allowed for switching between questions, the targeted duration of each interview with the ten overall questions below was one hour.

Thus, the interview was conducted using the following ten guide questions:

- Q1) How do you perceive the existence of tensions between Multinational Enterprises (MNEs) and local firms with regard to spillovers: non-existent? Mild/normal, intense? Where do you see this tension to be greater – in formal partnerships (government directly or SOEs) or with informal partnerships (firms with a strong influence with and the ability to speak to government)?
- Q2) Why do you believe the tension between MNEs and local firms exists?
- Q3) What is, in your opinion, the overall objective of MNEs when they invest in a natural resource-rich developing economy? And what do local firms that are host-country government partners (formally or informally) seek from these spillovers?
- Q4) In your opinion, do MNEs look to develop domestic markets for long-term sustainability for their own operations or because they are forced to by local regulations or legislation?
- Q5) Do you believe that if local firms engage in a more relational (instead of purely competitive and transactional) engagement with MNEs, it affects the tension between them? How? And how would this affect the potential benefits from spillovers?
- Q6) From your expert perspective, how do local firms that are host-country government partners leverage the tension between MNEs and themselves to better exploit maximum benefit from spillovers? Which are the strategies that are most commonly used?

- Q7) Can you share examples in your organisation that can demonstrate local firms benefiting from spillovers and the presence of foreign direct investment in the country overall? (Hint: local level of skills in the organisation, new capabilities, new product offerings, new markets)
- Q8) Through voicing their concerns (for example, about the levels of local employment, increase of national competitiveness and others) to government, these host-country government partners can influence the creation of protective policies and/or affect the outcomes of bargaining power of government negotiations with the MNEs (hint: change in legislation such as local procurement, employment and training of nationals). Do you believe this does happen and serves to raise the levels of the aforementioned tension?
- Q9) Following from the previous question, do you believe the use of bargaining influence by local companies with their governments increases or decreases benefits from spillovers and affects the tension between MNEs and local firms that are host-country government partners?
- Q10) Is there any experience that you would like to add to assist in understanding how local firms maximise benefits they obtain from spillovers?

APPENDIX B Consent form

**Gordon Institute
of Business Science**
University of Pretoria

CONSENT FORM

Research title: Tension between MNEs and HGPs: A spillover perspective in natural resource-rich developing economies

Researcher's name: Marco Martins Morgado

MBA final year student at GIBS – UP

I am conducting research on spillovers to local firms due to the presence of inward Foreign Direct Investment (FDI) and Multinational Enterprises (MNEs) in a host-country within the context of natural resource-rich developing and emerging economies. Our interview is expected to last about 45 minutes to one hour, and will help us understand better how local firms that are host-country government partners act to maximise benefits from spillovers and what are the mediating mechanisms of the potential tension between host-country government partner firms and MNEs with regard to obtaining benefits from spillovers. Your participation is entirely voluntary and you can withdraw at any time. Please rest assured that all information will be treated as confidential, all data will be stored without any identifier whatsoever and only the researcher will know the your position and name and the name of your organisation.

The contents of the interview may be made publicly available, in the form of an MBA thesis, without your name, position, organisation or any other personal details. If you have any concerns please feel free to contact me or my supervisor, whose details are provided below.

Researcher: Marco Morgado

Telephone: +258841640418 / +27 (0) 721174932

Email: marco.m.morgado@gmail.com

Research Supervisor: Professor Albert Wöcke

Telephone: +27 (0) 824116526

Email: wockea@gibs.co.za

Please initial the boxes below to acknowledge the present consent form.

1. I confirm that I understand what the research is about and have had the opportunity to ask questions.

2. I understand that my participation is voluntary and that I can withdraw at any time without giving a reason.

3. I agree to take part in the research.

4. I agree to my interview being audio recorded

5. I agree to the use of anonymised quotations in publications

Name of participant: _____

Signature: _____

Name of researcher: _____

Signature: _____

Date: _____

APPENDIX C Preliminary set of codes for data analysis

The preliminary set of codes that were derived from the literature review presented in Chapter 2 combined with the keywords that emerged from the *in-vivo* annotation of the interviews, and which relate to each specific research question and proposition is described as follows:

- Tension exists: intense
- Tension exists: normal
- No tension
- Tension greater with: government controlled
- Tension greater with: privates
- Reasons: MNEs profit maximisation
- Reasons: MNEs timeframe
- Reasons: lack of awareness
- Reasons: lack of capabilities
- Reasons: safety and quality standards
- Reasons: locals want to do services
- Reasons: locals want more benefits
- Reasons: locals seeing benefits escaping
- Spillover evidence: to government controlled
- Spillover evidence: to privates
- Political lobby
- Political connectedness
- Tension increasing
- Tension decreasing
- Relational: no effects
- Relational: decreases tension
- Relational: increases tension
- Relational: more spillovers
- Relational: less spillovers
- Strategy: build capabilities
- Strategy: claim from government
- Strategy: associate/partnership with local firms
- Strategy: associate/partnership with foreign firms
- Western vs. eastern
- Civil society role
- Claim from government: more is needed

APPENDIX D Narrative analysis with quotes from interviewees pertaining to Proposition 1

1. Provision of services, lack of capabilities and low quality and safety standards

One of the main identified themes from the respondents' data when asked how they perceived the potential tensions between MNEs and local firms with regard to spillovers, relates to tensions mainly arising from local firms seeking to provide services to MNEs working on large resource exploration and extraction projects in the country but finding that they are compromised in their ability to deliver because of a **lack of capabilities and low quality and safety standards**. As a result of this, MNEs tend to bring in other foreign service providers whose work they are familiar with, creating even more tension. A director of the local government controlled firm LG2, respondent LG2B, identified the resulting tension with local firms as being intense, saying the tendency of MNEs to lower their risk by working with companies with the skills levels they are comfortable with often resulted in friction with local companies.

"It is very intense (...) MNEs are companies with some experience, are companies that have a strong story in the market, and with strong alliances in the service providing area and naturally want to work with companies they have confidence with, they know, etc. not being very willing to risk and work with local companies over which do not have a lot of confidence and knowledge about their capacity. Thus the relationship is naturally one of friction." [LG2B]

This view was also confirmed by LG2A, who also identified the fact that MNEs operated under time constraints and did not always have time to allow for local firms to develop their capabilities in order to become service providers to them:

"Because of the required time and demands of the MNEs, the tendency is to bring foreign firms to do the works (...) with time we can resolve but if we look at immediate results it is always a source of tension." [LG2A]

One of the managers of the local government controlled firm LG1, respondent LG1A, also identified the lack of capabilities in local firms coupled to their expectations that they should be preferred service providers to MNEs as a source of tension:

"Given that there are certain technical, certification and experience pre-requisites that certain construction works require, lots of those expectations end up being defrauded because they end up not being in compliance with the prerequisites for that work (...) the first reaction is maybe of a more conflictive reaction that creates that tension." [LG1A]

The other manager of LG1, respondent LG1B, conceptualised the tension differently as

being more one of discomfort and lack of confidence in the capabilities of local firms:

"I think there is eventually, I do not know if I would call it tension, but there is some discomfort and lack of confidence from part to part (...) the country is emerging from a situation of difficulties, lots of poverty, the [reduced] level of organisational development, it is natural that companies from abroad that come here to invest, might not be very comfortable with the way local firms work. Lots of times our firms do not have the financial musculature, have no capital, do not have the organisational structure (...) the perception is that these firms are not prepared." [LG1B]

On the other side of the relationship, from the foreign MNE perspective, FF2A who is the managing director of FF2 and an expat, said that where they see the tension is at the small and medium enterprises level with Mozambican ownership and with a strong vocal presence in associations such as AA1, whilst most of the companies currently doing works for FF2 are foreign firms with Mozambican subsidiaries, who actually have the capital to be able to provide the necessary equipment. FF2A said that they would try to hire and buy locally wherever they could as it was very expensive to import goods and skills but it was not easy to do given the lack of capabilities, quality, and health and safety standards available locally:

"They're all wanting to take advantage and work with us. And the issue is firstly that they may not be in a business we need. So that's one challenge. And two is having them in a condition to participate in our tender process and actually do work for us, having the right health and safety procedures, having the right certificates. (...) 80% of the companies that tender for us do not have the necessary licenses (...) That's a big tension for us because we say you must have all these documents or we cannot do business with you (...) many of them take months and months to get them, and they do not want to do that." [FF2A]

Also from the foreign MNE FF2, the national content manager FF2B is himself a Mozambican national and has a different conceptualisation of the posited tension:

"It is an apparent tension (...) I think it is more a perception. It likely exists, but maybe if we're able to structure it we'll be able to understand it better. It is said that there is no smoke without fire (...) I only see the complaining (...) it exists in the mind of people but in reality I do not see it being a big problem (...) I see more an attitude of waiting for the Government to give everything" [FF2B]

He also indicates that the lack of capabilities of local firms is associated with an attitude of waiting for government to facilitate spillovers for them and also associated with a lack of preparation and the delivery timetable of MNEs:

"Projects are budget and time moulded. This equation, these two variables go together. No one comes here saying that they will do the project in 5 years and then wait 1 or 2 years until the Mozambicans have capacity to put the equipment they want there. If it does not exist, they'll bring it from outside" [FF2B]

The potential different conceptualisation of the tension between FF2A and FF2B might be related to their different vested interests in the context of spillovers to the local economy, being one a foreign and the other a local.

The same perspective of insufficient local capabilities as a source of tension was

shared by LP1A, previously a government cabinet minister (of a relevant field, undisclosed herein for the sake of confidentiality) and now an entrepreneur and Chairman of the Board of one of the companies in the LP1 business grouping:

"With companies, what is felt is in the political debate, in the debate between entrepreneurs that complain, for example, that these big companies subcontract companies that already come from their countries, but MNEs also complain that they do that because local companies are not sufficiently organised and capacitated to supply these services. And they want quality, punctuality and therefore they do not have another solution than to resort to companies that they know" [LP1A]

The ability of local companies to timeously and capably provide services did not, however, emerge in the interview with LP1B, the CEO of the business grouping LP1, but this interviewee did reveal that local firms overall do not have the capacity to take advantage of spillovers. This might be related to LP1A's more extensive experience and observer interest compared to LP1B's commitment to being more entrepreneurial within a more executive role at LP1.

The perspective from local firms that MNEs tend to use service providers that they already know or from their home countries is also supported by the views of the two directors from the local investment holding LP2:

"Even in terms of providing services, it exists because government puts a lot of pressure on companies to use the services of local companies. If that capacity does not exist, they [MNEs] do not care, they go and get companies that they already know, that are outside." [LP2A]

"Foreign firms want the best service at the best price. If they have funding from their home country, obviously they will try to give services to companies from their countries, but if there is a local protection, with a comparable service and an accessible price, and our state says 'no, we have local capacity', unless you can prove otherwise (...) then they can have a mechanism to go back to their country. But I think that companies, if there was something like that they could hire locally as long as it has quality and price." [LP2B]

Being an association of both local and foreign firms that assists in the dialogue with government, a more tension reliever view was evidenced by AA1A even though it was recognised that there exists a lack of capacity to provide services to the MNEs:

"I think it cannot be called tension. I think that the lack of knowledge from part to part has not allowed this connection (...) it is clear that local firms were born and grew in a certain model of work and these big companies have standards that many times the local companies cannot achieve. And by not being able to achieve them, there is a path that the big companies go on to facilitate the contact with firms, register with those companies that have the potential and can improve the standards of quality to provide those services." [AA1A]

The same tension relieving perspective was highlighted by the representative in the economic association AA1 for the oil and gas sector, when interviewee AA1B said that he perceives the potential tension merely as dynamic competition:

"We're talking about a market economy, I'm seeing here a dynamic of competition."

[AA1B]

Nonetheless, the concern about the lack of capabilities of local firms is shared by the chairman of the board of the petroleum regulatory body, INP, as evidenced in a recent news extract (O País, August 19, 2014):

"The Petroleum National Institute (INP) fears that Mozambican companies are not able to exploit the business opportunities offered in the hydrocarbon sector. The institution advises local entrepreneurship to work more, to not allow that foreign companies take all the money that they invest back to their countries. 'It will be invested between \$25 and \$30 billion but a big part of that money will go back through foreign companies that will provide services. The challenge that we have is to enable local companies to start to have the required level to also start to supply services and take advantage of that investment' explained Mabote."

2. Development of local partnerships and shareholding

Another theme that emerged from the data as a potential cause of tension was related to the broader context of the **development of local partnerships and shareholding** with local firms and entrepreneurs. It showed that many local private firms view MNEs as being unwilling to develop any kind of partnerships and shareholding with locals. This perspective is supported by the view of LP1A:

"With relation to local investors, the participation... the opportunity of local investors participating on these [extractive MNEs projects]. There, I think that from MNEs maybe there has been less commitment in doing that. I believe that is something that can only be imposed by local circumstances, either by government impositions or even by the aggressiveness of local investors." [LP1A]

From the same business group of LP1A, respondent LP1B, who is also a Mozambican national, also highlighted the tensions arising from the apparent unwillingness of MNEs to use local service providers:

"From the point of view of the business that is going to be realised here in Mozambique and the dimension of the investments (...) for instance the natural gas fields in the north (...) my answer is that it is non-existent (...) the various attempts to establish partnerships (...) initiatives that I had personal contact with, did not happen. Why? Uniquely and exclusively because of lack of will from the MNE. Why? Because for them, even if these industries yield more money, the egoism over the resource and the egoism over the detention of power that is production, makes that they completely ignore the political side, or the social side which is the development of the local entrepreneurship." [LP1B]

But LP1B also identified that some of the problem lies with local firms themselves:

"What local companies want is to have access to occasional opportunities, but there is not even capacity to understand spillovers, let alone to take advantage of them" [LP1B]

Nonetheless, LP1B recognised that there are a few entrepreneurs more knowledgeable and capacitated where the intension is very intense:

"I'm absolutely certain that there is an incredible tension between those few that have capacity and knowledge, there will always be a crazy tension (...) It is absolutely existent, the MNEs run like the devil from those investors exactly because they know that they will

disrupt their plans of extraction of resources (...) that they will use all the available means like media, government, other NGOs not affiliated to those countries (...) to make sure that the pressure over those companies that invest in the country for extraction for their plans to become, not compromised, but tight" [LP1B]

LP2B, previously a cabinet minister and now the owner and managing director of a local investment holding that also has interests in the extractive industry, sees tensions but attributes this to an unwritten law about MNEs and local partners that is exercised by the multinationals:

"The sense I have, that is also an experience, is that those MNEs have the tendency to work alone. They do not want local partners (...) Naturally they want local employees, they want local assistance and maybe of some companies (...) providing services or goods or whatever with local companies but that do not interfere with their business that they are here for (...) In my opinion it is a rule, it is not a tension, it is how MNEs behave. If they have a partner it is only because the legislation so obliges, as in the case of the hydrocarbons, with 10-15% to local partners, in particular to LG2." [LP2B]

When queried about the root causes for the current situation of potential tension, LP2B explained:

"There are two causes, two main reasons in my opinion. First, these companies [service providing] are non-existent (...) therefore services have to be sourced from the outside. And those companies that come, mostly multinationals, do not want to associate with anyone locally, because they are the ones that know, they have the know-how, they have the money, and therefore what do they need? They need nothing. Only if they are obliged to do it, and even then only if they believe that those obligations are still profitable to their business. The second reason, I believe, is that there is no government policy to favour national firms, or favour the intentions of national firms. I think that these two causes together lead us to this situation." [LP2B]

The other manager from LP2, respondent LP2A, supported the view of the managing director LP2B in terms of government policy but put more of the blame for the situation at the door of government rather than the MNEs:

"The problem is local environment and local legislation. And the government is the one impeding growth of local firms (...) There should be more protection and rules. If government established more rules on how this should work, there would be no conflict with the big companies, in my opinion, or there would be very little conflict (...) I believe government is protecting MNEs and not the national economy with its actions. There are some protective laws, but even the ones that exist, government ignores them to do what they want." [LP2A]

Interestingly enough, this sub-theme only emerged in the interviews with the private sector firms.

3. Domestic market development by extractive MNEs

One interesting sub-theme that emerged in the overall theme of local content development was related to the tensions arising from the development of domestic markets. The overarching concept that emerged from the data is that the commitment to **develop domestic markets** (within the broader concept of development of local

content) is also a source of tension as local firms look to development partly by exploiting opportunities arising from the activities of extractive MNEs, but the MNEs are looking outward, to export market-related priorities. LG2B: identified this tension, but added that slowly governments were doing something about it:

"I think that until today as we do not have formal mechanisms that force MNEs to maximise and develop local content (...) in which they should develop the local market, what you see is that MNEs are more extractive companies, that want to extract the resources and export the maximum they can and not develop the local market and contribute to the country's industrialisation and domestic market. But little by little government is creating mechanisms to maximise the development of the domestic market (...) That's why it has approved the gas master plan that establishes that at least 25% of the gas must be used for the domestic market." [LG2B]

The other director of LG2, further identified both external rules, such as World Bank guidelines among others, and internal (host-country impositions) as being necessary for MNEs to develop domestic markets, whilst complying with capital funding requirements and avoiding tension with the local private sector:

"The development of the local market is a consequence (...) when these companies come here they have a perspective, and the perspective they have is to have high returns. But to have these high returns, the same way they have to comply with the Equator principles [requirements for capital funding], World Bank guidelines, they also have to obey some local rules and standards, improving the living conditions of the people, they avoid commotions that represent extremely high losses due to stoppages that the factories might have." [LG2A]

From a foreign perspective, the managing director of FF2 recognised that MNEs would rather not develop domestic markets even though they made a commitment to do so for sustainability and political reasons but admitting that they think 25% is excessive:

"We're not a downstream company (...) we do not want to do any of that [downstream development]. We just want to sell gas. We want to sell it for the highest price, to make the most money, to pay the most taxes to Mozambique. So, we would prefer to do LNG [Liquefied Natural Gas] only. We have a domestic use obligation in our contract. I know they've put it into the petroleum law and I think we're supposed to be grandfathered from that, but we also recognise that politically, sustainability wise, if we do not do it, the government and people in general will be on us from day one forever: why are not you providing domestic gas? So we made the commitment to do it. We think 25% is excessive but we have not had any discussions with government on it." [FF2A]

Nonetheless, from a private firm perspective, LP1B evidences tension by seeing MNEs as avoiding the abovementioned local impositions

"Even those impositions from state, those legal and contractual impositions, they run the maximum possible away from them, avoid the maximum they can to implement it (...) there is no long-term vision" [LP1B]

LP1A also hinted that MNEs develop domestic markets to avoid potential tension or turbulence:

"I think that is a means only to guarantee their objective, because they know that if there

is turbulence, if there are tensions, these might extend beyond what is the capacity of government to contain. That is also not good for them." [LP1A]

Following the above comment regarding MNEs avoiding local impositions, LP1B gave an interesting example – the development of a 2100km north-south pipeline, which a macroeconomic impact study conducted by a reputable bank and paid for by FF2 mentioned that gas for such a project would only be available in 2035 and pictured it as unprofitable – beyond any expectations of local entrepreneurs:

"The best example of taking advantage of spillovers is this north-south pipeline project (...) in which they [FF2] now say that gas for it will only be available in 2035. That is, they have found an ingenious way to say that Mozambique cannot have access to its own gas." [LP1B]

The anchor customers for the abovementioned pipeline are two large gas-to-power electricity generation stations, which will sell electric power in the region and not exclusively supply the domestic market even though it will boost the creation of other domestic industries. In this regard, the managing director of FF2 commented that such pipeline would not really be a domestic gas project:

"It is not domestic gas (...) a lot of that would be for export. So, that's an export project, not a domestic gas project in my view." [FF2A]

The national content manager of FF2, interviewee FF2B also confirmed the perspective that for FF2 it is more advantageous to export the highest amount of Liquefied Natural Gas (LNG) whilst also referring to LP1B reference to the 2035 timeline in a public forum:

"It is positive at least in the sense that it shows that there is a window in which it says that at least 25% of the gas has to stay in the country (...) I'm also not seeing government saying that FF2 is producing 100t of gas per day and has to deliver 25t that no one is going to use (...) It cannot be like someone was asking why we will have to wait until 2035 for domestic gas, that we have to assemble processing facilities now (...) The higher amounts of LNG, FF2 can sell the better, they do not want to put this 25% here, it is too much. For FF2 it makes no economic sense." [FF2B]

Interestingly enough, FF2B once again demonstrated in his view above about the development of domestic markets less of an attachment to his employer interests compared to his home country development interests.

4. Return maximisation and timeframe perspective of MNEs

Interestingly enough, one of the themes that was expected to be more emerging from the interviews but was not as strongly grounded in the data as the service provider issue and lack of domestic capabilities directly supports Proposition 1. It is related to the **return maximisation perspective of MNEs**, taking into account their **timeframe** to recover the investment, investment-associated risk and MNEs seeing local firms as not

adding value. The underlying dyadic and opposing perspectives as a source of tension is supported by the views of FF1A:

"We put all the money in, we do all the development and we want the majority of the benefits (...) You have to understand that multinationals come in and take the initial risk and they take a lot of risk. Therefore they would like to see a higher return than they would get in another area. So you've got a natural tension of maximising shareholder value versus the country that also wants to maximise the benefits to its own investors and its own businesses" [FF1A]

They are also raised by FF1B when he identifies the lack of value addition by local firms as a source of tension:

"Sources of potential conflict or so, obviously, on a contracting strategy, who's getting what share, on one hand you could say, the risk that FF1 feels it is giving everything and Mozambican side (...) is really skimming of the cream, they're really not adding value. And I think that's really always a source of tension. It is the perception that one partner is getting everything for free and not adding value." [FF1B]

Respondent FF2B also outlined the return maximisation and timeframe perspective of the MNEs:

"I think that people must understand what the position is of each party. Logically the companies that come from outside to invest here expect things to be done in a smooth way because they are here with a clear timeframe and objectives so that they can give a return back to their investors and shareholders of the investment that is made."

Whilst FF2B demonstrated the existence of a clear timeframe and objectives, the managing director of FF2, FF2A, identified the tension in this regard to be more with government. It also identified barriers from government to its investment timeframe and returns. It believes the quicker timeframes would benefit government by providing revenues faster to invest elsewhere:

"I can have ten meetings with ministers and the president and nine of them will be about jobs, Mozambican company development, social investment and training (...) they never talk about timing, how quick, how much money will we make and the government, money that they can go and invest in other things." [FF2A]

Interestingly enough, the local government controlled firm LG2, partner of FF2 by mandate of Government, also identified the dyadic and opposing views on the return and investment timeframe:

"The part that has been more discussed, which is whether to maximise the returns in the short term or in a more elongated term. MNEs normally want to pay back the investment the quickest possible time, whereas us, a national company, have to find an equilibrium between payback and sustainability of the gains. Therefore, it is here where I can identify the conflict (...) As a national company, I can adjust my return levels by lowering them to the limits of sustainability, to guarantee that other socioeconomic factors also develop. For MNEs, the only factor that moves them is the return and payback period." [LG2A]

The above view of LG2A is also substantiated by the view of LG2B in his reply to a question about the development of domestic markets:

"I do not see any of the MNEs very focused on developing the domestic market. I see them being more interested in recouping their investment the quickest possible way." [LG2B]

From the perspective of another local government controlled firm LG1, LG1B accepts that is normal for MNEs to have a profit maximising perspective, but that locals seek to generate more development and to exploit the benefits of spillovers locally:

"The objective is, we all know, to come here to invest and get benefits. It is no secret, these are companies that work with an objective to make money (...) the important thing is that in doing that you can create wealth, development and, create the said spillovers so that it does not feed the perception that these companies only come here to extract (...) it is needed for that to be felt in practice." [LG1B]

Interestingly enough, the government also clearly displays its mediating role in the above-evidenced tension, as demonstrated by an extract of a speech of the then President of the Republic of Mozambique (Guebuza, 2014):

"These developments increase our responsibilities, by one side, to place those resources firmly in our development matrix, which is the great expectation of our people. On the other side, we have responsibilities in assuring a growing favourable environment to national and foreign investment (...) There is no contradiction between these two strands, that is, between promoting the development of our Mozambique and assure the return on investment of our business men and women."

In general, it could be observed that respondents from domestic government controlled firms demonstrated less tension with regard to MNEs than those from the private sector, who are more hostile towards MNEs in resource-rich countries. This was evidenced by the comments from interviewees of the two different private firms:

"Their objective is to make the most money possible and go away. Explore the maximum possible and go away. That is their objective. But now if you put rules, there is a minimum that they have to comply with, but it depends on what each government imposes (...) but even then they will comply with the minimum they have to and go away." [LP2B]

"The primary objective [of MNEs] is to keep colonising us. They will find all kinds of ways to continue to explore the resources and not allow the development of Africa, or for Africa to become independent." [LP1B]