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AN INVESTIGATION OF THE IMPACT OF INWARD FOREIGN DIRECT INVESTMENT ON SKILLS DEVELOPMENT AND JOB CREATION IN SOUTH AFRICA

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ABSTRACT

Two of the most serious challenges facing South Africa today are the availability of skills and unemployment. Inward FDI has been promoted by the IMF and the World Bank as a solution for sustained growth in developing countries. This growth impact can be achieved through a combination of FDI benefits which include access to foreign funds, adoption of superior technology, skills transfer and job creation. A number of researchers have investigated the impact of FDI and have come up with different conclusions. The purpose of this study is to investigate the impact of inward FDI on skills development and job creation in South Africa. Telephonic interviews were conducted with 32 multinational companies based mainly in the Gauteng Province during August 2010. A qualitative approach was used in the methodology by comparing the data collected across the companies that participated in the survey. The study concluded that inward FDI has a positive impact on skills development and job creation in South Africa and therefore significantly impacts economic growth.

KEYWORDS

Impact inward FDI South Africa,
Inward FDI skills development,
Inward FDI job creation.

DECLARATION

I declare that the research report,

ñAN INVESTIGATION OF THE IMPACT OF
INWARD FOREIGN DIRECT INVESTMENT ON
SKILLS DEVELOPMENT AND JOB CREATION IN
SOUTH AFRICAò

is my own work. It is submitted in partial fulfilment of the requirements of 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.

_____

SIPHO DEREK THOMO

10 November 2010

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TABLE OF CONTENTS

ABSTRACT ..... **I**

KEYWORDS i

DECLARATION ..... **II**

ACKNOWLEDGEMENTS ..... **III**

TABLE OF CONTENTS ..... **IV**

LIST OF TABLES ..... **VIII**

ABBREVIATIONS, ACRONYMS AND GLOSSARY ..... **IX**

CHAPTER 1: THE RESEARCH PROBLEM **1**

1.1 INTRODUCTION 1
1.2 RESEARCH OBJECTIVES 4
1.2.1 Research Objective 1 4
1.2.2 Research Objective 2 5
1.3 STRUCTURE OF THE RESEARCH REPORT 5

CHAPTER 2: LITERATURE REVIEW **6**

2.1 INTRODUCTION 6
2.2 FDI THEORIES 6
2.2.1 Neoclassical Trade Theory 7
2.2.2 Imperfect Markets Theory 7
2.2.3 The Internalisation Theory 8
2.2.4 The Eclectic Theory or OLI Paradigm 8
2.2.5 Product Life-Cycle Hypothesis 9

2.2.6 The Oligopolistic Reactions Hypothesis 10
2.3 IMPACT OF INWARD FDI ON ECONOMIC GROWTH 10
2.4 DETERMINANTS OF FDI 12
2.4.1 Size of the Market 13
2.4.2 Openness of the Local Economy 13
2.4.3 Availability of Natural Resources 13
2.4.4 Investment Climate 14
2.4.5 Infrastructure Quality 14
2.4.6 Availability of Skills 14
2.4.7 Policy Incentives 15
2.4.8 Conclusion 15
2.5 MOTIVES FOR INWARD FDI 16
2.5.1 Efficiency-Seeking FDI 16
2.5.2 Market-Seeking FDI 17
2.5.3 Conclusion 17
2.6 BENEFITS OF INWARD FDI 17
2.6.1 Introduction 17
2.6.2 Skills Development and Knowledge Transfer Benefits 19
2.6.3 Job Creation Benefits 20
2.6.4 Technology Benefits 21
2.6.5 Productivity Benefits to Domestic Suppliers 22
2.7 CONCLUSION 22

CHAPTER 3: RESEARCH QUESTIONS 24

3.1 INTRODUCTION 24
3.2 RESEARCH QUESTION 1 24
3.3 RESEARCH QUESTION 2 24
3.4 RESEARCH QUESTION 3 25

CHAPTER 4: RESEARCH METHODOLODY 26

4.1 INTRODUCTION 26
4.2 RESEARCH DESIGN 26
4.3 POPULATION OF REFERENCE 27
4.4 SAMPLING METHOD 28
4.5 UNIT OF ANALYSIS 29
4.6 DATA COLLECTION 29
4.7 METHOD OF ANALYSIS 29

4.8 LIMITATIONS OF THE RESEARCH 30

CHAPTER 5: RESEARCH RESULTS 32

5.1 INTRODUCTION 32
5.2 TYPE OF INWARD FDI 32
5.3 IMPACT OF INWARD FDI ON SKILLS DEVELOPMENT 33
5.3.1 Formal Training Programmes 33
5.3.2 Skills Development through Knowledge Transfer by MNC Employees 34
5.3.3 Knowledge Transfer to Domestic Suppliers by MNCs 35
5.3.4 Knowledge Transfer through Research and Development Activities by MNCs 36
5.3.5 Overall Contribution of Inward FDI to Skills Development 37
5.4 IMPACT OF INWARD FDI ON JOB CREATION 38
5.4.1 Jobs Created at Management Level 38
5.4.2 Jobs Created at Non-Management Level 38
5.4.3 Jobs Lost as a Result of Inward FDI 39
5.4.4 Job Creation through Start-up Companies by MNC Employees 39
5.4.5 Overall Contribution of Inward FDI to Job Creation 40
5.5 CONCLUSION 41

CHAPTER 6: ANALYSIS OF RESULTS 42

6.1 INTRODUCTION 42
6.2 TYPE OF INWARD FDI 42
6.3 IMPACT OF INWARD FDI ON SKILLS DEVELOPMENT 43
6.3.1 Channel 1: Formal Training Programmes 43
6.3.2 Channel 2: Knowledge Transfer by Skilled Employees 44
6.3.3 Channel 3: Training of Domestic Suppliers 45
6.3.4 Channel 4: Research and Development Activities by MNCs 46
6.3.5 Overall Contribution by Inward FDI to Skills Development 46
6.4 IMPACT OF INWARD FDI ON JOB CREATION 48
6.4.1 Job Creation through Start-up Companies by MNC Employees 49
6.4.2 Jobs Lost as a Result of Inward FDI 49
6.4.3 Overall Contribution by Inward FDI to Job Creation 50
6.5 CONCLUSION 51

CHAPTER 7: CONCLUSIONS AND RECOMMENDATIONS 52

7.1 INTRODUCTION 52

7.2 CONCLUSIONS 53
7.2.1 Impact of Inward FDI on Skills Development 53
7.2.2 Impact of Inward FDI on Job Creation 54
7.3 RECOMMENDATIONS TO STAKEHOLDERS 54
7.4 RECOMMENDATIONS FOR FUTURE RESEARCH 55

REFERENCES 56

APPENDIX A: SURVEY QUESTIONNAIRE 64

APPENDIX B: RESEARCH AGENCY TECHNICAL REPORT 70

APPENDIX C: COMMENTS ON THE CONTRIBUTION BY MNCS TO SKILLS DEVELOPMENT 73

APPENDIX D: COMMENTS ON THE CONTRIBUTION BY MNCS TO JOB CREATION 74

LIST OF TABLES

Table 4.1: Industry sectors used in the survey 28

Table 5.1: Type of inward FDI 32

Table 5.2: Formal training programmes 33

Table 5.3: Custodian of training programmes 33

Table 5.4: Employees targeted for training 34

Table 5.5: Employees trained before and after FDI 34

Table 5.6: MNC employees that have joined domestic companies 35

Table 5.7: MNCs that have assisted domestic suppliers set up production facilities 36

Table 5.8: MNCs demanding higher quality and reliable delivery times 36

Table 5.9: Research and development activities by MNCs 37

Table 5.10: Perceptions on the overall contribution of inward FDI to skills development 37

Table 5.11: Jobs created at management level 38

Table 5.12: Jobs created at non-management level 39

Table 5.13: Jobs lost from inward FDI 39

Table 5.14: Number of MNC employees who started their own companies 40

Table 5.15: Perceptions on overall contribution of inward FDI on job creation 41

ABBREVIATIONS, ACRONYMS AND GLOSSARY

dti	Department of Trade and Industry of the Republic of South Africa
FDI	Foreign Direct Investment
IMF	International Monetary Fund
MNC(s)	Multinational Corporation(s)

CHAPTER 1:
THE RESEARCH PROBLEM

1.1 INTRODUCTION

The impact of inward foreign direct investment (FDI) on economic growth has been widely researched and different conclusions have been reached by a number of researchers (Fedderke & Romm, 2006; Crespo & Fontoura, 2007; Beugelsdijk, Smeets & Zwinkels, 2008; Ben Hamida & Gugler, 2009). This topic has attracted a lot of research attention because of the impact FDI is believed to have on economic growth. Some of the benefits noted by Kinda (2010) are beneficial effects on financial resources, technology, skills, access to export markets and employment.

This is consistent with Reiter and Steensma (2005) who note that inward FDI is regarded not only as an important source of foreign funding but also as a conduit for improving productivity, increasing international competitiveness and increasing access to export markets which significantly contribute to sustainable growth and better standards of living. Further benefits cited by Mwilima (2003) are job creation and skills development or skills transfer and therefore this is the main motivation for attracting FDI by governments in developing countries.

The literature review indicates a positive relationship between inward FDI and economic growth (Noorbakhsh, Paloni & Youssef, 2001; Fedderke & Romm, 2006; Fortanier & van Wijk, 2010; Adams, 2010). A number of empirical studies conclude that there is a positive relationship between FDI and economic growth; however, none has conclusively proven a causal relationship between these variables (Fedderke & Romm, 2006; Azman-Saini, Baharumshah & Law, 2010; Gao, 2004).

Despite the inconclusive results on the causal relationship, the International Monetary Fund (IMF) and the World Bank state that FDI is critical for economic growth in developing countries (Mwilima, 2003). According to Mlambo (2005) FDI is important for development as mentioned by the IMF because it provides a source of funding. This is consistent with Kugler (2008) who asserts that FDI is the main source of international funding for developing countries. Sekkat & Veganzones-Voroudakis (2007) state that inward FDI is also seen as providing additional resources a country needs to bolster its economic performance.

Rusike (2007) suggests that the competition for inward FDI stems from the expected benefits that will result from foreign investment which, when all summed up together, will contribute to economic growth. These benefits include an increase in productivity as a result of adopting superior technology, skills development and knowledge transfer, establishment of a new domestic supplier base and an increase in employment opportunities (Lim, 2001).

The FDI benefits discussed above have motivated many developing countries, including South Africa, to pursue trade and investment policies aimed at attracting FDI (Mwilima, 2003). The South African government has undertaken a number of policy initiatives aimed at making the local economy attractive for FDI by reducing trade barriers such as tariff reductions and liberalisation of capital flows to attract investors (Rusike, 2007).

Policy initiatives alone are not sufficient for attracting the required levels of FDI. Moolman, Roos, le Roux & du Toit (2006) note that global FDI flows largely favoured developed countries in terms of inward and outward FDI. They go on to cite the 2003 UNCTAD report that showed the distribution of total global FDI flows, with 70 % going to developed countries and 30 % going to developing countries, of which only 4 % went to Africa. The determinants for these differing trends are discussed in the following section.

According to Sekkat & Veganzones-Varoudakis (2007), good infrastructure and a stable economic and political environment are important determinants of inward FDI. In addition, resource-rich countries tend to attract the largest FDI inflows (Moolman et al, 2006). This therefore means developing countries need more than just aggressive FDI-seeking policies and incentives, they also need to foster a conducive investment climate which entails good governance, improved infrastructure, quality education and sound monetary and fiscal policy.

As a developing country, two of the major challenges facing South Africa today are the acute shortage of suitable skills and high unemployment rate (25.3 % as at end July 2010) (Stats SA, 2010). According to McGrath and Akoojee (2007), skills growth and development are critical for industrial development and global competitiveness which South Africa, as a developing country, requires.

Kingdon and Knight (2004) note that such a high unemployment rate has serious consequences for the South African economy in terms of economic welfare, erosion of human capital, crime and social instability. The high level of unemployment has been attributed to the significant earnings gap between the formal sector and the relatively small informal sector.

The President of South Africa, Mr Zuma, in his *State of the Nation Address*, highlighted skills development and job creation as part of the major goals for the new government (South African Government Information, 2010). To achieve this goal, one of the strategies lies in attracting FDI. According to the World Bank, South Africa is not attracting the level of inward FDI required to tackle the major challenges of high unemployment and poverty (**dti**, 2010). Therefore, the importance of inward FDI on skills development and job creation is critical for sustainable economic growth in South Africa.

Mwilima (2003) notes that two of the five main reasons governments in southern Africa want to attract FDI are that first, FDI will result in job creation and, second, FDI will lead to the transfer of skills to local managers. Dinga

and Münich (2010) point out that few studies have focused on the impact of inward FDI on the host economyøs labour market. Recent studies focusing on South Africa have focused on the growth impact and determinants of FDI in general (Fedderke & Romm, 2006; Moolman et al, 2006; Rusike 2007).

The focus of this research is to investigate the impact of inward FDI on skills development and job creation in South Africa and ultimately contribute to solving two of this countryøs biggest problems.

1.2 RESEARCH OBJECTIVES

According to Zikmund (2003), research objectives define the scope of the study and provide a framework that is a guideline as to the type of information to be collected in order to answer the research problem. There two research objectives for this study and they are outlined below.

1.2.1 Research Objective 1

The first aim of this research is to determine the contribution of inward FDI to skills development in the South African economy.

Multinational corporations (MNCs) can contribute to skills development or knowledge transfer through formal training of local workers and through knowledge transfer by skilled MNC employees who join domestic firms (Todo, Zhang & Zhou, 2009). Lim (2001) suggests that knowledge transfer can also occur through the adoption of new technologies by domestic firms which have been introduced by the entry of an MNC. He maintains that knowledge transfer will also take place when domestic suppliers are assisted by an MNC to set up production facilities requiring the delivery of high-quality products. Research and development activities of MNCs that result in interactions between MNCs and domestic firms can also contribute to skills development and knowledge transfer (Branstetter, 2006).

1.2.2 Research Objective 2

The second aim of this research is to assess whether inward FDI by MNCs has contributed to job creation in South Africa.

Inward FDI can lead to job creation in two ways. Firstly, MNCs can set up affiliates in other countries and hire locals thereby increasing employment (Fortanier & van Wijk, 2010). Fortanier and van Wijk argue that MNCs in the service industry (such as in hotels) are more likely to create jobs than domestic firms because they demand higher levels of service delivery. Secondly, jobs can be created by MNCsôexperienced employees who leave to start their own businesses. Lim (2001) cites Malaysia where, out of nine companies that had sprung up to serve foreign investors, seven had been started by employees who had worked for MNCs.

1.3 STRUCTURE OF THE RESEARCH REPORT

The research report contains seven chapters. Chapter 1 presents the introduction to the research problem. A comprehensive literature review is contained in Chapter 2. The research questions are presented in Chapter 3, whilst the research methodology is described in Chapter 4. Chapter 5 presents the research results which are analysed in Chapter 6. The conclusions and recommendations are presented in Chapter 7. The references contain a comprehensive list of the references cited. Appendices A to D contain supplementary information cogent to the research.

CHAPTER 2:
LITERATURE REVIEW

2.1 INTRODUCTION

According to the Organisation for Economic Cooperation and Development's benchmark definition of FDI, FDI is

> "a lasting interest by a resident entity in one economy ("direct investor") in an entity resident in an economy other than that of the investor ("direct investment enterprise"). The lasting interest implies the existence of a long-term relationship between the direct investor and the enterprise and a significant degree of influence on the management of the enterprise" (OECD, 1996, p7,8).

An example of inward FDI in South Africa is the purchase of 32 % of ABSA's shares, a South African based company, by Barclays Bank, a British-based company (ABSA, 2010). This then begs the question of why an entity would choose to invest in an economy other than its own. FDI theory attempts to explain the motives behind FDI.

2.2 FDI THEORIES

FDI theories were initially developed in the early 1960s in an attempt to explain how the determinants of FDI influence the flow of capital from one country to another country (Faeth, 2008). According to Faeth, Robinson in 1961 and Berham in 1962 were early contributors to FDI theory. Some of the FDI theories that have been developed are discussed briefly below.

2.2.1 Neoclassical Trade Theory

According to Faeth (2008), early FDI theory was based on the neoclassical trade theory that viewed FDI as international capital that would be invested in countries where firms would expect to earn higher returns. The main reason for the difference in capital returns in different countries is due to different factor endowments that result in an international factor pricing differential. This is supported by the market disequilibrium hypothesis. In some instances, disequilibrium in labour factor prices can result in FDI to flow from countries with high labour costs to countries with low labour costs until equilibrium is achieved in the labour markets (Rusike, 2007). In this case low labour costs become an important determinant of FDI. For example, in South Africa, inward FDI in the clothing and textile industry by Chinese firms could be heavily influenced by the attraction of a cheap labour market compared to other countries.

2.2.2 Imperfect Markets Theory

A firmôs decision to invest abroad is influenced by the potential to make profit due to specific advantages it has over domestic firms. According to Faeth (2008) the imperfect market theory was developed in 1960 by Hymer and developed further by Kindleberger in 1969 in response to the neoclassical trade theory which was criticised as being inadequate to explain the flow of FDI due to its assumption of perfect competition. According to the imperfect market theory, FDI is influenced by ownership advantages. These could include superior technology, management expertise and product differentiation. These ownership advantages give foreign firms an advantage when competing with firms in the domestic economy (Faeth, 2008). This is consistent with Reiter and Steensmaôs (2010) argument that imperfect markets are the main reason MNCs undertake FDI. Toyota of Japanôs entry into the North American market could have been influenced by the companyôs perceived advantage of management expertise over North America car manufacturing companies. The ability to transfer skills and

superior technology is critical to an MNCôs decision to undertake FDI as this gives it a competitive edge over local companies.

2.2.3 The Internalisation Theory

This theory, developed by Buckely and Casson in 1976, is based on the premise that because markets are imperfect MNCs can be more efficient by internalising their operations (Kalfadellis & Gray, 2002). MNCs are exposed to imperfect intermediate markets, factors of production, services, technology and marketing techniques which, in turn, make the cost of transferring information, bargaining and enforcement significantly high (Faeth, 2008). This drives MNCs to replace imperfect market transactions with internal transactions (Moosa, 2002). Due to having more efficient processes of transferring information, it is more economical for an MNC to expand into another country and produce in that market than to export or import. Being efficient in transferring sophisticated information as a result of experience, knowledge and expertise enables MNCs to have a competitive advantage over domestic firms (Rusike, 2007).

2.2.4 The Eclectic Theory or OLI Paradigm

The eclectic theory builds on the internationalisation theory by adding two independent variables in explaining FDI by MNCs and these are firm-specific advantages and location advantages. According to Dunning (2000), this theory was first developed in 1977 and proposes that FDI by MNCs can be explained by the interaction of these three independent variables that provide a framework for explaining the determinants of FDI by MNCs. The internalisation theory variable explains how MNCs choose to enter other markets. The more efficient internal processes, the more likely firms will expand internally across borders where localisation factors are attractive through FDI (Dunning, 2000). The ownership advantages variable explains how firm-specific strengths ï like management expertise or superior technology ï provide MNCs with a competitive advantage over domestic

firms which influences their decision to undertake FDI. Dunning opines that the higher the ownership advantages of MNCs, the higher the likelihood of them undertaking FDI. The location characteristics of different host countries influence the level of FDI they receive. Location factors, such as abundant natural resources and the size of the local market, are important determinants of FDI (Rusike, 2007). According to Dunning (2000), the more such factors can be combined with ownership advantages of the investing MNC, the more likely the MNC will consider investing in the foreign country. For example, inward FDI in South Africaôs mining sector by Chinese firms could be influenced by location factors in terms abundance of minerals in the country combined with ownership advantages in terms superior technology in mining techniques and internalisation factors such as tariffs.

2.2.5 Product Life-Cycle Hypothesis

Moosa (2002) and Rusike (2007) identify the product life-cycle hypothesis developed by Vernon in 1966. This theory asserts that MNCs involved in the production of innovative products will engage in FDI at the maturity stage of the product life cycle in order to take advantage of production cost advantages in foreign markets.

In the early stages of the new product life cycle, production takes place in the domestic country due to proximity of customers and the need to maintain efficient communication processes between the market and the firm. In the maturity stage of the product life cycle, competition increases, the market becomes saturated which leads to a fall in demand. At this stage, a firm will start exporting to other countries in search of new markets.

According to Moosa (2002), improved standardisation of production processes and growing demand from other countries will result in the firm setting up production facilities in foreign countries. The tendency of western firms like General Electric to place production facilities in developing countries like Mexico provides a clear example of the product life-cycle hypothesis (Lim, 2001).

2.2.6 The Oligopolistic Reactions Hypothesis

In an õoligopolistic industry environmentò there is intense competition and a move by one firm is usually met with a counter move by other firms in the same industry. In 1973, Knickerbocker applied this notion in the case of FDI. A move by a firm in an oligopolistic environment to engage in FDI would be met by a similar move by other firms in order to protect market share (Moosa, 2002). Lim (2001) cites the example of General Motors. A move by General Motors to set up production facilities for its engines in Mexico resulted in other major foreign car manufacturers following suit.

2.3 IMPACT OF INWARD FDI ON ECONOMIC GROWTH

Mwilima (2003) identifies two main conduits for FDI. The first is greenfield FDI which can be defined as an investment in a new business also called a õmortar and brickò investment. The second conduit for FDI is through mergers and acquisitions. Kim (2009) notes that these two types of investment have different impacts on economic growth.

The main reason for attracting inward FDI is that FDI will contribute positively to economic growth through increased foreign capital, access to superior technology and increased competitiveness (Adams, 2009). Developing countries particularly see inward FDI as a source of capital for new investments that will create jobs and increase economic growth (Aseidu, 2002; Mwilima, 2003).

The South African government is also of the opinion that inward FDI will lead to economic growth (EIU, 2010). Fedderke and Romm (2006), in their empirical study on the growth impact of inward FDI in South Africa, find that FDI contributes positively to economic growth. Lim (2001) argues that while there is significant support that benefits do arise out of inward FDI in terms of positive spillovers, there is no evidence of a direct causal relationship between FDI and economic growth.

Different types of inward FDI will have a varying impact on economic growth. Bezuidenhout (2009) argues that inward FDI will contribute to economic growth only in cases where the FDI inflows are invested in an efficient and sustainable way. This argument is supported by Reiter and Steensma (2010) who note that inward FDI must be channelled strategically in the right sectors through a discriminative FDI policy that will align inward FDI flows with the economic development goals of the host country.

FDI in South Africa has been mainly capital intensive and therefore its impact on job creation ï for example, may not be significant (Mwilima, 2003). In addition, the extent of the impact of inward FDI will depend on the environment of the host country (Rusike, 2007). The factors that influence the magnitude of the impact of inward FDI include the level of human capital, the technological gap and investment climate of the host country (Lim, 2001). Lim maintains that the higher the level of human capital, the higher the impact of inward FDI on economic growth (Lim, 2001). This implies that a certain level of skills is required for a host economy to fully absorb the benefits of inward FDI. Lim (2001) asserts that studies have shown that the smaller the technological gap between the MNC and the host economy, the higher the benefits of efficiency spillovers as is the case with Italian firms.

On the contrary, other studies have shown that inward FDI does not necessary contribute to economic growth. According to Wijeweera, Villano and Dollery (2010), there is no empirical evidence to support the theory that there is a positive relationship between FDI and gross domestic product. Further evidence comes from a study of 28 developing countries which found no evidence in the majority of countries studied of the impact of inward FDI on economic growth in both the short- and the long-term (Herzer, Klasen & Nowak-Lehmann, 2008).

This research goes on to state that there is no clear relationship between the growth impact of inward FDI and the level of per capita income, level of education, openness of the local economy and the degree of sophistication of financial markets in developing countries (Herzer et al, 2008). Mwilima (2003)

cites an example of Namibia where inward FDI investments in the mining sector led to a loss of 9 000 jobs over 12 years. Lim (2001) as well as Adams (2009) point out that, in the short term, inward FDI has negative effects due to the crowding out of domestic firms as a result of increased competition from MNCs.

The literature that supports the positive relationship between inward FDI and economic growth appears to outweigh the research that suggests the opposite. The empirical studies that have been carried out have proven that a positive correlation exists between inward FDI and economic growth of the host country (Lim, 2001). Inward FDI, especially greenfield investment, leads to an increase in the foreign capital of the host country which, in turn, may fund an increase in a countryôs productivity and output though more efficient use of resources (Sekkat & Veganzones-Varoudakis, 2007).

In their study of FDI in South Africa and its impact on national output, Moolman et al (2006) conclude that there is a positive relationship between inward FDI and economic growth. It is therefore important for developing countries to create policies that attract inward FDI. However, to realise the full positive impact of inward FDI, they must provide the right environment in terms of the availability of suitable skills and a conducive investment climate.

2.4 DETERMINANTS OF FDI

The attractiveness of a country to foreign investors can be summarised into two main categories: the characteristics of the local economy (location factors), and the motives of the foreign investor, for example, resource-seeking or efficiency-seeking FDI. The location factors that determine FDI inflows include the size of the market, the openness of the economy, the amount of available natural resources, investment climate, infrastructure, availability of skilled labour and incentive policies (Nonnemberg & Mendoça, 2001; Moolman et al, 2006; Lim 2006; Rusike, 2007).

2.4.1 Size of the Market

According to Lim (2001), the size of the market will influence inward FDI in terms of costs of supplying the domestic market that result from economies of scale. The larger the host market, the lower the costs of supplying the domestic market. The size of the market, may indicate a healthy economic environment and also the magnitude of potential demand which may influence the investment decisions of foreign investors (Moolman et al, 2006). According to Mlambo (2005), part of the major reason South Africa attracts the highest FDI inflows compared with other countries in southern Africa is because of the size of its market.

2.4.2 Openness of the Local Economy

The openness of the local economy is important to foreign investors as it has a bearing on the mobility of capital in and out of the country (Rusike, 2007). In addition, Rusike notes that the more open an economy in terms of fewer capital controls and more liberal trade policies, the higher the level of expected FDI inflows.

This argument is supported by Fedderke and Romm (2006) who note that inward FDI restrictions and trade barriers play a crucial role in the location of investments by MNCs. In their empirical study of 72 developing countries in the 1990s, Sekkat and Veganzones-Varoudakis (2007) found that openness is a major determinant in the attractiveness of an economy in terms of inward FDI. Moolman et al (2006) note that a country with progressive trade liberalisation policies will attract higher levels of inward FDI than a country that does not have open economic policies.

2.4.3 Availability of Natural Resources

Natural resources are a great attraction to countries that do not have them. China has been accused of stripping Africaôs assets to fuel its resource-hungry economy. This is consistent with Moolman et alôs (2006) assertion that the countries that have received the largest FDI inflows in Africa have

done so because of the abundant resources that they possess. These countries include Botswana, Nigeria, Angola and Tunisia.

2.4.4 Investment Climate

The investment climate of the local economy is another major determinant of inward FDI. Foreign investors need to be assured that their investments are secure in terms of protection of property rights and the security of their personnel. A friendly investment climate lowers the cost of doing business in a country which, in turn, will attract foreign investment. Thus, countries with high levels of bureaucracy, unstable political environments or economic instability are less likely to attract inward FDI (Lim, 2001; Rusike, 2007). This is consistent with Mlambo's (2005) arguments that institutional factors such as the administration of taxes, investment laws, legal frameworks, financial systems, red tape and corruption all contribute to the cost of doing business in a country. Therefore, to beat the competition for inward FDI, a country must have policies that will lower the cost of doing business in that country.

2.4.5 Infrastructure Quality

A country with good infrastructure in terms of roads, ports, airports, and good telecommunications is likely to attract higher FDI inflows due to lower transactional costs (Fedderke & Romm, 2006). Transaction costs are lower because of easier access to customers and suppliers. Availability and speed of internet access, for example, make trade easier and less expensive within and outside the local economy. A good infrastructure also has positive implications for the size of the market. According to Kinda (2010), by improving access to the market, a good infrastructure actually increases the real size of the available market.

2.4.6 Availability of Skills

The availability of skilled labour in the host country is a major decision consideration for potential foreign investors especially those investors who

are efficiency seeking. Nonnemberg and Mendoça (2001) note that, in studies that have been carried out previously, the level of skills available in the local economy influenced the correlation between inward FDI and economic growth. In an empirical study of human capital and FDI inflows in developing countries, the level of skills significantly correlated with inward FDI and the level of human capital in a country is a critical determinant of inward FDI (Noorbakhsh, Paloni & Youssef, 2001). One of the major reasons for the lower-than-expected inward FDI in South Africa is due to insufficient skilled labour (**dti**, 2010).

2.4.7 Policy Incentives

Tax holidays, subsidies, import exemptions, accelerated depreciation allowances, grants and loans are all part of incentives a country may offer to attract foreign investors (Mwilima, 2003). These incentives make a country attractive to foreign investors as they significantly lower the cost of doing business in a country. In South Africa, examples of incentives that are offered by the **dti** in the manufacturing sector include:

- Foreign investment grants of up to 15 % of value of new machinery and equipment limited to R3 million
- The skills support programme that provides 50 % of training costs and 30 % of worker salaries for a maximum of three years to promote skills development
- The strategic investment project that offers a tax allowance of up to 100 % on the cost of fixed assets (limited to R600 million) for strategic investments of at least R500 million.

(Source: EIU, 2010.)

2.4.8 Conclusion

The above determinants are critical in terms of the level of inward FDI a country receives. Studies have proven there is a positive relationship

between the determinants of FDI and the level of FDI inflows. This has important implications for South Africa. If inward FDI is seen as a strategy for economic growth through the provision of foreign capital for new investment, the government needs to create policies that will factor in the above determinants of inward FDI. Although some of the above determinants like availability of natural resources and size of the market cannot be influenced, investing in education, infrastructure and ensuring a friendly investment climate can have a significant impact on the level of inward FDI.

2.5 MOTIVES FOR INWARD FDI

The above section outlines the determinants of inward FDI, but these are not the only factors, the motives for inward FDI also play a crucial role in determining the level of inward FDI in a country. In this instance, it is not only the countryôs characteristics that determine the level of inward FDI but also the motives of the investing MNC. Aizenman (2003) asserts that country characteristics ï such as market size and differences in relative endowments ï influence the choice between horizontal and vertical inward FDI. MNCs may invest in other locations with the objective of seeking efficiencies (vertical FDI) or they may invest with the objective of securing foreign markets (horizontal FDI) (Gross & Ryan, 2008).

2.5.1 Efficiency-Seeking FDI

Efficiency-seeking FDI or vertical FDI is motivated by MNCs looking to locate production facilities in countries where there is an abundance of cheap, unskilled labour (Beugelsdijk et al, 2008). MNCs locate their facilities in these countries in order to lower their production costs by exploiting the available cheap labour. Vertical FDI is made possible by varying input costs in different regions. The motive is to maximise the profit of the MNC by placing the different stages in the production process in places where they can be done at the lowest cost (Aizenman, 2003). Lim (2001) cites an example where the

assembly of electronic products is situated in Asia, while the production of components and sales of the final product occurs in the United States.

2.5.2 Market-Seeking FDI

The motive for market-seeking FDI stems from the desire to produce for the domestic market instead of exporting from the home country. The MNC produces similar goods and services in different countries. In this way the MNC is able to access the domestic market without having to experience trade barriers in terms of import duties and transportation costs, thereby reducing the cost of serving domestic markets (Lim, 2001). Lim continues to argue that market-seeking FDI will tend to be higher where the costs of setting up local production and selling in the domestic market are lower than the costs of exporting to the domestic market.

2.5.3 Conclusion

The investment decisions of MNCs are influenced not only by the location characteristics of the countries they invest in, incentive policies and the availability of skills, but also by the motives for making the investment decision. MNCs exist to make a profit and will exploit opportunities to increase their profits, for example, lowering production costs by moving production facilities to low-wage countries.

2.6 BENEFITS OF INWARD FDI

2.6.1 Introduction

The type of mechanism that is used for inward FDI also has a bearing on the extent of the benefits a host country will receive from the investment. Mwilima (2003) argues that inward FDI in the form of mergers and acquisitions is less likely to be beneficial to the host country compared to greenfield investment. For example, mergers and acquisitions are less likely to lead to job creation opportunities than greenfield investment. Instead, layoffs are more likely to

happen (Mwilima, 2003). In his study of cross-border mergers and acquisitions vs. greenfield FDI in South Korea, Kim (2009) found that greenfield investments are more beneficial to the host country in terms of capital formation and welfare benefits. Kim notes that the main result (a potential disadvantage) of cross-border mergers and acquisitions is that income earned in the host country will be transferred out to the MNCs head office operation.

The extent to which the host country is receptive to inward FDI is another determinant of the extent of FDI benefits that occur in the local economy. The receptiveness is, in turn, influenced by the determinants of the inward FDI as noted above. For example, the level of human capital has a bearing on the absorptive capacity of the local economy of new technologies being introduced by MNCs (Lim, 2001).

Many developing countries create incentive policies to attract FDI from the belief that inward FDI will lead to economic growth (Rusike 2007). Economic growth is achieved through the realisation of benefits as a result of the foreign investment. According to Hamida and Gugler (2009); Kugler (2006) and Noorbakhsh, Paloni and Youssef (2001), the benefits that are expected by host countries when MNCs enter the domestic market include:

- technological spillovers and skills transfer through training from the adoption of superior technology
- benefits to domestic suppliers from knowledge transfer and increased productivity
- creation of jobs as MNCs establish new companies in host economy
- access to foreign markets through affiliates of MNCs.

The type of inward FDI a country receives also determines the benefits that a host country is expected to receive. According to Beugelsdijk et al (2008), horizontal inward FDI and vertical inward FDI have different impacts on

economic growth, with horizontal FDI having a bigger impact in host countries.

2.6.2 Skills Development and Knowledge Transfer Benefits

The entry of MNCs into a local economy is expected to bring about knowledge diffusion to domestic firms and domestic suppliers. Todo et al (2009) identify four channels through which knowledge transfer can take place in the host country and these include: firstly, through technical training of local employees by MNCs; secondly, through employee mobility by skilled MNC employees joining domestic firms; the third channel is through backward linkages to domestic suppliers who are set up and trained by the MNC to supply it with reliable quality products and, lastly, through research and development activities in the host country by MNCs.

2.6.2.1 Skills development through technical training

Technological spillovers that result from the adoption of new, more efficient technology that has been introduced by an MNC have a linkage to knowledge transfer benefits. Employees of domestic firms adopting such technology need technical training in order to be able to operate the new technology. Fedderke and Romm (2006) argue that technological spillovers and skills transfer are now critical as South Africa has moved from being a factor-driven economy to an efficiency-driven economy.

2.6.2.2 Knowledge transfer through employee mobility

Knowledge workers employed by MNCs can transfer their expert skills by joining domestic firms (Crespo and Fontoura, 2007). In their study in China, (Todo et al, 2009) found that employee mobility by engineers and managers between MNCs and domestic firms provides evidence of knowledge spillovers. Domestic low-technology firms are expected to gain higher knowledge spillover effects where worker mobility provides an opportunity for domestic firms to hire skilled employees from high-technology MNCs (Hamida & Gugler, 2009).

2.6.2.3 Knowledge transfer to domestic suppliers

The spillovers from backward linkages to domestic suppliers complements knowledge transfer. MNCs that assist domestic suppliers to set up production facilities will also facilitate the training of those suppliers to satisfy the supply requirements of the MNCs. According to Lim (2001), interactions between MNCs and domestic suppliers can result in efficiency and productivity increases for domestic firms.

2.6.2.4 Knowledge transfer through research and development activities by MNCs

Research and development interactions between MNCs and domestic firms can lead to knowledge transfer to domestic firms. Domestic firms can learn from the research and development activities of MNCs and thereby improve upon their own research (Branstetter, 2006).

2.6.3 Job Creation Benefits

Due to high unemployment rates, one of the major reasons for attracting inward FDI in developing countries is the belief that FDI will create jobs. Inward FDI can contribute to job creation in the host country when MNCs assist domestic suppliers to set up new production facilities and through former skilled MNC employees who establish their own businesses. Many countries view inward FDI as an important mechanism to improve the local labour market conditions in terms of employment (Dinga & Münich, 2010).

The mechanism that is used for inward FDI and the type of FDI that is received by a country will have a varying impact on job creation for the domestic economy. For example, inward FDI that comes in the form of a cross-border merger and acquisition is likely to have less impact on the local labour market compared to greenfield investments (Mwilima, 2003).

The effect of greenfield investments on job creation is direct as new firms will require labour to operate (Branstetter, 2006). This is consistent with Kimâs

(2009) findings in his study on South Korea where he measured the correlation between the two modes of inward FDI on capital formation and employment creation. According to Kimôs findings, greenfield investment was positively correlated to employment compared with cross-border mergers and acquisitions which were negatively correlated to employment. In addition, different sectors will have a varying impact on job creation spillovers. Inward FDI in the financial services sector may not yield any job creation opportunities in comparison with, for example, the clothing and textile sector which may create hundreds of low-skilled jobs.

According to Reiter and Steensma (2010), the FDI policy of developing countries also has a role in shaping the impact of FDI on human development. They argue that FDI policy can help channel inward FDI into sectors that will have a positive impact on human development in line with a governmentôs human development goals like job creation and skills development, for example.

2.6.4 Technology Benefits

MNCs may invest in the local economy from the belief that they have a competitive edge over domestic firms stemming from superior technology. This more advanced, efficient technology is expected to spill over to local competitors, suppliers and customers. Benefits from technology spillovers can come from three sources: technical experts employed by an MNC could resign to take up employment in domestic firms; MNCs could provide technical assistance to suppliers and customers, and domestic firms could copy technologies and management practices used by MNCs (Sadik & Bolbol, 2001).

Lim (2001) notes that improvement in the technology of domestic firms as a result of inward FDI could result in increased productivity. A domestic firm could copy technology that is used by MNC affiliates and thereby increase its productivity. Lim provides examples of where North American firms have set up operations in Asia and upgraded their Asian subsidiaries with the latest

technology, resulting in increased output. Increased competition from MNCs entering the market can also force domestic firms to invest in new technology in order to retain their existing market share (Kugler, 2006). Empirical research shows that South Africa has received positive technology spillovers from inward FDI (Fedderke & Romm, 2006).

2.6.5 Productivity Benefits to Domestic Suppliers

The entry of MNCs into the local market can have positive spillovers that could act as a catalyst for the creation of a new domestic supplier base or the expansion of existing suppliers. In his research, Lim (2001) cites three ways in which domestic suppliers can benefit from MNCs: an MNC can help potential suppliers set up production facilities; MNCs can improve the efficiency of domestic suppliers by demanding quality products with reliable on-time deliveries; and, finally, an MNC can provide training and facilitate adoption of best practice in terms of management and organisation. Lim cites Mexico, where, as a result of General Motors and other MNCs moving to Mexico to establish production facilities, 310 domestic suppliers were established within a period of five years. Kugler (2006) supports this argument by stating that backward linkages will be generated by the entry of MNCs in the local economy due to increased demand for input products.

2.7 CONCLUSION

MNCs enter markets in developing countries to make a profit and how they achieve this goal may be in conflict with the economic development goals of the host country. FDI policy in developing countries, therefore, has an important role to play to ensure that the benefits expected from inward FDI can be realised. Reiter and Steensma (2010) cite the case of China and India as examples of countries that have directed inward FDI into sectors perceived as crucial for economic development.

The benefits of inward FDI when combined are expected to lead to economic growth (Moolman et al, 2006), although some studies carried out for

developing countries have found that inward FDI has little or no impact on economic growth. The extent to which the benefits of inward FDI are realised not only depends on the type of inward FDI but also on the receptiveness of the host economy in terms of skills levels and the technology gap. Reiter and Steensma (2010) conclude that governments also play an important role in influencing the impact of FDI on local economic growth.

CHAPTER 3:
RESEARCH QUESTIONS

3.1 INTRODUCTION

This chapter discusses the research questions used by the researcher to achieve the research objectives that were outlined in Chapter 1. Formulating the research questions enhances understanding of the research problem and helps the researcher translate the research problem into a more precise *"need of inquiry"* (Zikmund, 2003). The research problem is to investigate the impact of inward FDI by MNCs on skills development and job creation in South Africa.

3.2 RESEARCH QUESTION 1

What type of inward FDI has been received by MNCs in South Africa?

In determining the nature of the impact of inward FDI, it is essential that the type of inward FDI be identified. According to the literature review, different types of inward FDI have varying impacts on the benefits of skills development and job creation in the host country (Beugelsdijk et al, 2008).

3.3 RESEARCH QUESTION 2

What is the impact of inward FDI by MNCs on skills development and knowledge transfer in South Africa?

Noorbakhsh, Paloni and Youssef (2001) note that inward FDI is expected to improve resources and skills bottlenecks especially in developing countries. Inward FDI can impact skills development or knowledge transfer through four

channels which include: formal training of employees in new technology (Lim, 2001); employee mobility by skilled workers from MNCs to domestic firms (Hamida & Gugler, 2009); backward linkages to domestic suppliers where MNCs assist domestic firms to set up new production facilities (Lim, 2001); and through research and development activities of MNCs in the host economy (Branstetter, 2006). The sub-questions under research Question 2 were designed based on these four channels.

3.4 RESEARCH QUESTION 3

What is the impact of inward FDI by MNCs on job creation in South Africa?

As noted in the literature review, one of the expected benefits of attracting inward FDI is that it will contribute to job creation (Kinda, 2010). According to Fortanier and van Wijk (2010), the entry of affiliate MNCs in the local economy is expected to increase economic activity which, in turn, will lead to an increase in employment as domestic MNC subsidiaries hire local workers. Besides greenfield investments, another way inward FDI can lead to job creation is when skilled and experienced employees start their own domestic firms (Todo et al, 2009).

The sub-questions under research Question 3 are designed to determine the number of jobs created before inward FDI and after inward FDI. They also seek to establish how employees that work for MNCs have left to start their own businesses. One of the sub-questions also addresses the negative impact of inward FDI as Mwilima (2003) argues that FDI through mergers and acquisitions can result in jobs lost in the short term.

CHAPTER 4:
RESEARCH METHODOLODY

4.1 INTRODUCTION

Yin (2003) defines research design as a logical plan that links the beginning (research to questions) to the end (conclusions). He notes that the research design guides the researcher in the process of collecting, analysing and interpreting the data. The previous chapter discussed the beginning. This chapter outlines the methodology that the researcher undertook to answer the research questions outlined in Chapter 3. This includes how the research was designed, the population of reference, the sampling method that was used, data collection, data analysis and the limitations of this research paper.

4.2 RESEARCH DESIGN

The extensive literature review suggests that inward FDI has a positive impact on knowledge transfer and job creation. This impact depends on the nature of FDI and the suitability of the host country to absorb these benefits (Lim, 2001). The objective of this study is to investigate whether these benefits have accrued in South Africa as a result of inward FDI received. This will be achieved by interpreting the data collected and comparing the results across the respondents in order to determine the nature of the impact of FDI. Based on this approach, a qualitative method is applied.

Strauss and Corbin (1998, p10,11) define qualitative research as *"research that produces findings not arrived at by statistical means or other means of quantification"*. Qualitative research can be achieved through participant observation or through in-depth interviewing (Leedy & Ormrod, 2005). The

research design entailed the use of a survey questionnaire with both closed- and open-ended questions. It was divided into two main sections that would attempt to answer the two research questions. Questions were designed based on the literature review on the benefits of inward FDI to obtain information that was accurate. The research questionnaire is included in Appendix A.

The questionnaire was designed to collect both quantitative and qualitative data through closed- and open-ended questions, respectively. The combination of multiple data collection methods is referred to as ñtriangulationò (Carvalho, Scott & Jeffery, 2005) note that triangulation is valuable in a qualitative study as data are collected from more than one source of evidence.

According to Modell (2009), by using different methods for research, a deeper complementary insight can be gained on the topic of study and to lend credibility to the results. The data collected through the 16 closed questions provided quantitative information in terms of the number of employees trained and the number of jobs created as result of inward FDI. The data collected through the two open-ended questions provided the researcher with a deeper insight into perceptions about the nature of the impact of inward FDI on skills development and job creation in South Africa.

4.3 POPULATION OF REFERENCE

As noted in the literature review inward FDI can occur through various channels. For the purposes of this study, inward FDI was restricted to MNCs registered in South Africa whose controlling interest is based abroad.

To identify the population of reference, the first step was to obtain the latest database of all registered MNCs in South Africa. A database compiled by Business Monitor International (2010), a reputable research company based in the United Kingdom, was purchased online in order to obtain a list of MNCs registered across all nine provinces of the Republic of South Africa in

2009. The directory does not include all registered MNCs in South Africa as some companies have failed to respond to the Business Monitorûs questionnaires or have declined to be included in the directory.

4.4 SAMPLING METHOD

Non-random convenience sampling was used to identify the sample for the survey. The **dti** was contacted by Quest Research Services to find out which sectors had received the highest level of inward FDI in the past 10 years. Table 4.1 contains the list of the sectors that were identified for this research.

From these sectors, non-random convenience sampling was used to gather data. The initial step was to email the informed consent letter and survey questionnaire to 417 MNCs to determine which ones were willing to participate in the survey. Thirty-two companies based in the Gauteng Province of the Republic of South Africa agreed to participate in the research. Telephonic interviews were then conducted during the month of August 2010.

Table 4.1: Industry sectors used in the survey

Sector	Number of companies	Total number of successful interviews
Manufacturing	301	24
Mining	47	2
Agriculture	28	2
Tourism	41	4
Total	**417**	**32**

Zikmund (2003) points out that convenience sampling may result in the respondents not being representative of the population. The advantage of non-random convenience sampling is that it relatively inexpensive and quick.

4.5 UNIT OF ANALYSIS

According to Yin (2003), the unit of analysis is determined by the way the research questions have been defined. The first unit of analysis was the type of inward FDI that has been introduced by the MNCs. It was important to identify the type of inward FDI because the literature review has shown that different types of inward FDI have varying spillover effects in the host country. The second unit of analysis was the training programmes that have been introduced by MNCs as a result of inward FDI. This was critical in determining whether inward FDI has impacted on the training policies of the MNC. The third unit of analysis was the number of local employees that have been trained to determine whether knowledge transfer has occurred as a result of inward FDI. The final unit of analysis is the number of jobs that have been created or lost as a result of inward FDI.

4.6 DATA COLLECTION

It was decided early in the research process that services of a reputable research organisation would be sourced mainly to speed up the data collection process and increase access to the selected companies in the sample. Quest Research Services were engaged to carry out the data collection during the month of August 2010. Structured telephonic interviews were conducted using the survey questionnaire with the aid of a computer software package called Computer Aided Telephone Interviews. Thirty-two (32) companies responded in the four major sectors identified. The interviews were conducted in the respondentsô preferred language. The full technical report from Quest Research Services on the methodology is attached in Appendix B.

4.7 METHOD OF ANALYSIS

This study is exploratory in nature and describes and compares the data collected to determine how inward FDI has impacted skills development and job creation. As noted this is not an empirical study to prove the relationship

between inward FDI and skills development and job creation. This is a qualitative study that will compare the data collected together with respondentsô perceptions to determine the impact of inward FDI on South Africaôs most pressing challenges.

The survey questionnaire was designed to gather both quantitative and qualitative data. Qualitative research does not typically collect data in the form of numbers. Descriptive analysis is used to compare the data before and post inducement of FDI combined with results from the open-ended questions. This will enable the researcher to do a qualitative assessment about the nature of the impact of inward FDI on skills development and job creation in South Africa.

To assess the impact after the inducement of FDI it was also necessary to collect data about skills development and number of jobs before the introduction of inward FDI. The data were then compared to data collected for the post-inducement period. Peterson (2005) states that comparative research is a powerful research tool as data are collected from multiple observations rather than a single observation.

The results were compared across all respondents to establish a trend and also compared with studies cited in the literature review to determine the nature of the impact in the South African economy.

4.8 LIMITATIONS OF THE RESEARCH

One of the limitations of this research is the size of the sample and the method of sampling. Leedy and Ormrod (2005) note that qualitative research is characterised by a small, non-representative sample and that the sampling method could be theoretical or snowball sampling. In this research, non-random convenience sampling was used based on the willingness of contacted companies to participate in the survey. This does not make it possible to make conclusions about the entire population. However, the

open-ended questions directed to managers in these MNCs do provide an insight about the role of inward FDI in improving skills and creating jobs.

A second limitation is that the population of reference is restricted to MNCs in South Africa. Inward FDI in terms of portfolio purchases that result in the foreign investor being able to exercise a significant position of influence could have bearing on the training and recruitment policies of the South African entity. This was deemed beyond the scope of the present study.

CHAPTER 5:
RESEARCH RESULTS

5.1 INTRODUCTION

This chapter presents the results obtained from the data collection process. The survey questionnaire was administered through telephonic interviews with the assistance of a computer program designed to capture and summarise the data collected in real time. The data are categorised into two sections that address the two research questions.

5.2 TYPE OF INWARD FDI

As noted in the literature review, the type of inward FDI has a bearing in terms of the extent to which FDI benefits are realised (Beugelsdijk et al, 2008).

Respondents were asked to identify the type of FDI their companies had received. Table 5.1 presents the number of respondents by type of inward FDI.

Table 5.1: Type of inward FDI

Type of investment			Frequency	%
	1	Greenfield investment	18	56.3
	2	Merger	3	9.4
	3	Acquisition	7	21.9
	4	Not sure	4	12.5
Total			**32**	**100.0**

Of the total, 18 MNCs received FDI in form of greenfield investment, three were mergers and seven were acquisitions. Four companies did not respond to this question.

5.3 IMPACT OF INWARD FDI ON SKILLS DEVELOPMENT

5.3.1 Formal Training Programmes

Of the MNCs that were interviewed, 28 have a formal training programme whilst four companies did not have formal training programmes (Table 5.2).

Table 5.2: Formal training programmes

Does the company have formal training programmes?			Frequency	%
	1	Yes	28	87.5
	2	No	4	12.5
Total			**32**	**100.0**

Table 5.3 shows that of the MNCs in the survey that had training programmes, 24 had programmes that were prescribed by the head office of the MNC whilst 4 used programmes prescribed by the local subsidiary. Four MNCs in the survey did not respond to this question.

Table 5.3: Custodian of training programmes

Who prescribes the training programme?			Frequency	%
	1	Head office of the company	24	75.0
	2	Local company	4	12.5
	3	No response	4	12.5
Total			**32**	**100.0**

The majority (28) of companies that responded target all employees within the company for training. Four companies in the survey did not respond to the question. Table 5.4 presents the number of MNCs that provide training.

Table 5.4: Employees targeted for training

Who is targeted for training within your organisation?			Frequency	%
	1	All employees	28	87.5
	2	No response	4	12.5
Total			**32**	**100.0**

Table 5.5 shows the number of employees trained before FDI and those trained after FDI. The results indicate the number of employees trained by MNCs in the survey increased by more than 200 % after the infusion of FDI.

Five companies did not respond to the question of how many employees had been trained before FDI and seven companies did not respond to the question on how many had been trained after FDI.

Table 5.5: Employees trained before and after FDI

Employees Trained	Total	Frequency
Before FDI	961	27
After FDI	2 015	28

5.3.2 Skills Development through Knowledge Transfer by MNC Employees

The results show 10 MNC respondents did not have employees who changed jobs to join domestic companies. Eight respondents had between

one and 10 employees who left to join domestic companies. Six MNCs in the survey had between 11 and 20 employees joining domestic companies. Only five of the MNCs in the survey had more than 20 employees leaving their employ to join domestic companies. Three companies did not respond to this question. Table 5.6 presents the number of respondents who had former employees joining domestic companies.

Table 5.6: MNC employees that have joined domestic companies

How many skilled employees have left your company to join domestic companies?			Frequency	%
	1	None	10	31.3
	2	1 ï 10	8	25.0
	3	11 ï 20	6	18.8
	4	More than 20	5	15.6
	5	Not sure	3	9.4
Total			**32**	**100.0**

5.3.3 Knowledge Transfer to Domestic Suppliers by MNCs

The results show that 17 MNCs surveyed have been involved with assisting domestic suppliers to set up production facilities, and 15 of MNCs have not been involved in assisting domestic suppliers to set up production facilities. This is reflected in Table 5.7.

Table 5.7: MNCs that have assisted domestic suppliers set up production facilities

Has the company been involved in the establishment of domestic suppliers, i.e. assisting with setting up of production facilities or technical training in new products that are required?			Frequency	%
	1	Yes	17	53.1
	2	No	15	46.9
Total			**32**	**100.0**

Table 5.8 shows that 25 of the MNCs in the survey demand higher standards of quality and delivery times from domestic suppliers. Six companies in the survey did not demand higher quality from their suppliers. One company did not respond to the question.

Table 5.8: MNCs demanding higher quality and reliable delivery times

Does the company have supplier requirements in terms of higher standards of quality and delivery times?			Frequency	%
	1	Yes	25	78.1
	2	No	6	18.8
	3	No response	1	3.1
Total			**32**	**100.0**

5.3.4 Knowledge Transfer through Research and Development Activities by MNCs

The fourth channel through which knowledge transfer can occur is through research and development activities by MNCs in the host economy. Only nine respondents conduct research and development activities in South Africa, while 21 respondents do not conduct research and development in

South Africa. Two respondents did not answer this question. Table 5.9 presents the number of MNCs who conduct research and development activities.

Table 5.9: Research and development activities by MNCs

Is the company involved in research and development of new products or technologies in South Africa?			Frequency	%
	1	Yes	9	28.1
	2	No	21	65.6
	3	No response	2	6.3
Total			**32**	**100.0**

5.3.5 Overall Contribution of Inward FDI to Skills Development

On perceptions about the overall contribution by MNCs to skills development in the country, a total of 19 companies regarded the contribution adequate. Four respondents regarded the contribution as inadequate, whilst five respondents regarded the contribution as more than adequate. Four respondents did not respond to this question. Table 5.10 presents a summary of the perceptions of MNCs in the survey.

Table 5.10: Perceptions on the overall contribution of inward FDI to skills development

How adequate is the contribution to skills development by MNCs in South Africa			Frequency	%
	1	Inadequate	4	12.5
	2	Adequate	19	59.4
	3	More than adequate	5	15.6
	4	No response	4	12.5
Total			**32**	**100.0**

The concluding section on skills development solicited additional comments from the respondents on the role of MNCs in promoting skills development in the South Africa. The majority of the respondents were of the opinion that MNCs were positively impacting skills development in South Africa.

5.4 IMPACT OF INWARD FDI ON JOB CREATION

5.4.1 Jobs Created at Management Level

The results show that 14 of the respondents recorded less than five jobs created at management level. Between five to 10 management level jobs were created by six MNCs in the survey. Five respondents had more than 10 jobs created at management level. Seven MNCs did not respond to this question. Table 5.11 presents the number of jobs created at management level.

Table 5.11: Jobs created at management level

How many management level jobs were created as a result of FDI by the MNC?			Frequency	%
	1	Less than 5	14	43.8
	2	5 ï 10	6	18.8
	3	More than 10	5	15.6
	4	No response	7	21.9
Total			**32**	**100.0**

5.4.2 Jobs Created at Non-Management Level

The results show that 19 of MNCs in the survey had less than 50 non-management jobs created. Two of the MNCs in the survey created between 50 and 100 non-management jobs. Only one MNC in the survey created more than 100 non-management jobs. Ten MNCs in the survey did not

respond to this question. Table 5.12 presents the number of non-management new jobs created by MNCs.

Table 5.12: Jobs created at non-management level

How many non-management level jobs were created as a result of the investment by the MNC?			Frequency	%
	1	Less than 50	19	59.4
	2	50 ï 100	2	6.3
	3	More than 200	1	3.1
	4	No response	10	31.3
Total			**32**	**100.0**

5.4.3 Jobs Lost as a Result of Inward FDI

Only six respondents recorded jobs lost, whilst 25 respondents did not record jobs lost. One company did not respond to this question. Table 5.13 presents the number of respondents who recorded jobs lost from inward FDI.

Table 5.13: Jobs lost from inward FDI

Were any jobs lost within your company as a result of the investment by the MNC?			Frequency	%
	1	Yes	6	18.8
	2	No	25	78.1
	3	No response	1	3.1
Total			**32**	**100.0**

5.4.4 Job Creation through Start-up Companies by MNC Employees

Table 5.14 presents the number of former MNC employees who left their employment to start their own companies. Nineteen respondents did not have employees leave to start their own businesses. Seven respondents had

between one and 10 employees start their own businesses. Two MNCs had between 11 and 20 employees do so and only one MNC had more than 20 employees leaving to start their own businesses. There were three non-responses to this question.

Table 5.14: Number of MNC employees who started their own companies

How many employees have left your company to start their own companies in the same industry?			Frequency	%
	1	None	19	59.4
	2	1 ï 10	7	21.9
	3	11 ï 20	2	6.3
	4	More than 20	1	3.1
	5	No response	3	9.4
Total			**32**	**100.0**

5.4.5 Overall Contribution of Inward FDI to Job Creation

Nineteen respondents (59.4 %) ñagreeò with the statement that inward FDI has resulted in job creation in South Africa. One respondent ñstrongly disagreesò with the statement, four ñdisagreeò, whilst six of the respondents ñstrongly agreeò. There was one respondent who ñneither agreed nor disagreedò with the statement and one non-response to this question. Table 5.15 presents the perceptions on the overall contribution of inward FDI to job creation in South Africa.

Table 5.15: Perceptions on overall contribution of inward FDI on job creation

How much do you agree with the following statement: inward FDI by MNCs has resulted in the creation of jobs in South Africa?			Frequency	%
	1	Strongly disagree	1	3.1
	2	Disagree	4	12.5
	3	Neither agree nor disagree	1	3.1
	4	Agree	19	59.4
	5	Strongly Agree	6	15.6
	6	No response	1	3.1
Total			**32**	**100.0**

The concluding section of the questionnaire invited additional comments on the role played by MNCs in creating jobs in South Africa. The majority of the respondents were of the opinion that more still needs to be done in terms of job creation in South Africa. A table of the full list of comments is included in Appendix D.

5.5 CONCLUSION

This chapter presented the results from the survey. The next chapter presents an analysis the results and compares the results to past studies in order to answer the research questions proposed in Chapter 3.

CHAPTER 6:
ANALYSIS OF RESULTS

6.1 INTRODUCTION

In this chapter the results presented in Chapter 5 are analysed to determine the impact of inward FDI on skills development and job creation in South Africa. Thirty-two (32) companies responded to the survey. Convenience sampling was used to obtain the sample. This was based on the willingness of the respondents to participate in the survey. This has limitations in terms of being representative of the population of MNCs in South Africa.

6.2 TYPE OF INWARD FDI

The mechanism that is used for inward FDI has a bearing on the extent of the impact of the investment on the local economy (Beugelsdijk et al, 2008). For this study, it was therefore important to determine the type of inward FDI in assessing the impact on skills development and job creation.

The majority (56.3 %) of the respondents received inward FDI in the form of greenfield investment, 9.4 % was in the form of mergers, 21.9 % was in the form of acquisitions and 12.5 % of respondents could not state what type of inward FDI their company had received. The results do not necessarily reflect the trend in FDI transactions in South Africa. Mwilima (2003) notes that 60 % of inward FDI in South Africa is in the form of mergers and acquisitions and that mergers and acquisitions are more likely to have a negative impact than greenfield investments.

6.3 IMPACT OF INWARD FDI ON SKILLS DEVELOPMENT

According to Todo et al (2009), the impact of inward FDI on skills development can crystallise through four channels which include technical training in new technology; knowledge transfer by skilled employees of the MNC; training of domestic suppliers and assisting them to set up production facilities and, lastly, through research and development activities by MNCs in the local economy. The aim of the questionnaire was to determine whether these four channels have impacted skills development in South Africa.

6.3.1 Channel 1: Formal Training Programmes

The results in Chapter 5 show that 87.5 % of the respondents have formal training programmes, whilst 12.5 % do not.

A significant portion of MNCs in the survey (75 %) had programmes that had been adapted from their head office; 12.5% were prescribed by the local company. The remaining 12.5 % of the MNCs surveyed did not answer the question.

The majority of respondents (87.5 %) targeted all employees within the organisation for training, and 12.5 % did not answer the question.

The results also show that a large number of employees were trained after the inducement of inward FDI. The total number of employees trained increased by more than 200 % from 961 employees to 2015 employees in the companies that were surveyed. This can be attributed to the majority of the MNCs in the survey being in the form of greenfield investments where, before, inward FDI, they were non-existent. Newly established companies need to train new employees in technical skills, especially where new technology is entailed. In addition Fortanier and van Wijk (2010) note that in the services industry, foreign firms conduct more training than domestic firms due to higher service demands from the MNCs.

The results for the first channel through which inward FDI can impact skills development show a significant positive impact on skills development by the MNCs in the survey. MNCs that have diverse formal training programmes that target a majority of their employees significantly impact skills development in South Africa in a positive way.

6.3.2 Channel 2: Knowledge Transfer by Skilled Employees

Hamida and Gugler (2009) assert that inward FDI can result in knowledge transfer where skilled employees of MNCs change employment to join domestic companies, thereby transferring their knowledge to local employees. This position is supported by Fortanier and van Wijk (2010) who opine that technology and knowledge transfer to domestic firms can result from employees who are experienced in the MNCsô technology and management practices changing employment to join domestic businesses or start up their own companies.

The survey results show that 31.3 % of the MNCs had no employees leave to join domestic companies; 25 % had between one and 10 employees leave to join domestic companies; 18.8 % had between 11 and 20 employees leave to join domestic companies; 15.6 % had more than 20 employees leave to join domestic companies, and 9.3 % were unsure.

The results show a positive contribution in terms of skills transfer by MNCsô employees to local employees. As mentioned, one of the major challenges facing South Africa is an acute shortage of skills. This makes skilled employees a scarce resource in the country which leads to employee retention strategies by companies to stop employee mobility. This, therefore, makes the second channel by which inward FDI can impact on skills development not as effective. Crespo and Fontoura (2007) argue that it is difficult to assess the impact on knowledge transfer through labour mobility as workers exiting MNCs to join domestic firms would have to be tracked in order to assess their impact.

The level of skills in a country is an important determinant of inward FDI for developing countries (Noorbakhsh, Paloni & Youssef, 2001). Therefore, the lack of suitable skills in South Africa can hinder the level of inward FDI it attracts which, in turn, limits the impact of skills transfer by MNC employees to local employees. In addition, the lack of skills in South Africa may result in a negative impact as MNCs will seek to attract the best available skills from domestic firms by paying higher salaries (Crespo & Fontoura, 2007). The opposite case can be found in an empirical study of knowledge spillovers in China by Todo et al (2009), where they conclude that better educated employees of MNCs contribute to improved productivity of domestic firms when compared to less educated employees in the same industry. The higher the level of education of MNC employees, the higher the impact of knowledge transfer benefits to domestic companies.

6.3.3 Channel 3: Training of Domestic Suppliers

When MNCs enter a local market they can assist domestic suppliers in setting up production facilities, train them in new technologies and demand higher quality products and reliable delivery times (Lim, 2001). This training of domestic suppliers facilitates skills development in their employees. The questionnaire was designed to establish if this channel has delivered the same results for suppliers in the local economy.

Of the 32 companies that responded to the survey, 53.1 % had been involved in assisting domestic suppliers set up production facilities. Although the type of involvement is not asked for in the questionnaire, it implies that the entry of the MNC in the local economy required new inputs that were non-existent in the area of operation. Assisting in the setting up of production facilities will invariably entail training in the operation of the new facilities. This will contribute to skills development for employees of the suppliers involved. Lim (2001) cites Mexico as an example where the move by General Motors to set up its engine production facilities there led to the establishment of 310 domestic suppliers who were trained weekly on industry best practice.

While some MNCs had not been involved with assisting in the setting up of production facilities, not surprisingly 78.1 % of respondents demand higher quality inputs and reliable delivery times. Sixty-two point five percent (62.5 %) were also involved in training and creating awareness about higher quality standards in their input products. Poor quality input products and unreliable deliveries can be costly for both the supplier and the buying MNCs in terms of lost contracts for the suppliers and lost production times for the MNC. According to Lim (2001), this demand for higher quality and delivery times will spur domestic suppliers to adopt more efficient technologies and processes which will require new skills from the employees of the supplier.

6.3.4 Channel 4: Research and Development Activities by MNCs

The fourth channel by which knowledge transfer can occur as a result of inward FDI is through research and development activities of MNCs in the host economy. These can result in domestic firms copying or adopting more innovative and superior technology as a result of research and development activities by the MNC. Branstetter (2006) cites the case of Japanese firms which gained knowledge transfer benefits mainly through research and development activities of North American firms.

The results indicate that only 9 % of MNCs in the survey are involved in research and development activities. This means that the impact on skills development in South Africa through research and development activities of MNCs is insignificant. Domestic companies will not be able to copy and adopt innovative technologies from local MNCs because of limited research and development activities by the MNCs.

6.3.5 Overall Contribution by Inward FDI to Skills Development

As noted above, formal technical training by MNCs is the strongest channel by which skills development and knowledge transfer is most impacted by inward FDI in South Africa. Todo et al (2009) note that the extent of the impact of inward FDI on skills development and knowledge transfer can be

influenced by the technology gap between MNCs and domestic firms and by the ability of the host economy to take advantage of these benefits. This implies that a certain level of skills is crucial for ensuring the full impact on skills development by MNCs in South Africa.

From the results of the survey, 59.4 % of respondents were of the opinion that MNCs in South Africa have contributed adequately to skills development. This sentiment is consistent with the results on formal training that is conducted by MNCs in the survey which provides a more direct and more easily measurable contribution to skills development than Channels 2 to 4 mentioned above.

The concluding part of the questionnaire on skills development solicited general commentary from the respondents on the role played by MNCs in developing skills in South Africa. The full list of comments is provided in Appendix C. Some of the more insightful comments were:

> ñA lot has been done and we greatly appreciate it.ò
>
> ñMNCs are playing their part.ò
>
> ñMore investment by MNCs must be encouraged.ò
>
> ñThe government has to lay down the base and set an example.ò
>
> ñThis does not have to be foreign funded, all companies should fund skills development.ò
>
> ñOrganisations should try to do more towards skills development.ò

The above comments are consistent with the sentiment that MNCs are performing an adequate role in skills development in South Africa. However, government and domestic companies need to invest more in skills development in general. This is supported by the governmentôs recognition that skills development is a crucial challenge for the South African economy and needs to be given priority in terms of funding and focus. The statement on more efforts to attract investment by MNCs is consistent with the literature

review that developing countries view inward FDI as part of the solution for current economic problems.

6.4 IMPACT OF INWARD FDI ON JOB CREATION

Job creation is cited by many developing countries as one of the major reasons for attracting inward FDI (Dinga & Münich, 2010). South Africa is in a similar situation and is promoting policies to attract inward FDI in the hope that it will contribute to economic growth and reduce poverty though the creation of employment (Moolman et al, 2006). However, the literature review notes that, for many developing countries, studies on the benefits of inward FDI have yielded mixed results with no significant impact on the host economies (Beugelsdijk et al, 2008). The second research question of this study is to determine whether inward FDI has had an impact on creating jobs in South Africa.

The results in the survey indicate that there were more low-level operational jobs created than management-level jobs as a result of inward FDI. Almost half of the respondents had only five jobs created at management level and 59.4 % of respondents had less than 50 jobs created at operational level. This implies that fewer high-level management jobs were created because they are held by skilled expatriates, while low-skilled operational jobs are held by locals. This is supported by the fact that high-level skills in South Africa are in short supply. This, therefore, affects the number and type of jobs that are created by MNCs entering the local economy.

Besides the availability of skills, the type of inward FDI received by the host economy also has a bearing on job creation benefits. Kim (2009) notes that FDI greenfield investments in South Korea were more correlated to increased productivity and job creation than mergers and acquisitions. The results show that 59.4 % of MNCs in the survey were in the form of greenfield investments, while 31.3 % were in the form of mergers and acquisitions. Although only a few jobs were created based on the survey results, the fact that jobs were created implies a positive impact on job creation. This is

consistent with Fedderke and Romm's (2006) findings in their empirical study on growth impact and determinants of inward FDI in South Africa, where they conclude that inward FDI has positive benefits on foreign capital formation and labour in South Africa.

6.4.1 Job Creation through Start-up Companies by MNC Employees

Inward FDI can also lead to job creation in cases where the employees of MNCs leave their employer and set up new businesses to support the MNCs in the same industry. These new companies would then employ local labour in their start-up companies. Lim (2001) cites the example of Malaysia where, of nine companies that were established to support MNCs, seven had been started by employees working for the foreign MNC.

Although the results indicate that the majority of respondents in the survey did have employees who had left work to start up their own businesses, a third of the companies that responded had between 1 and 20 employees leave work to start their own businesses. While the study did not go to the extent of determining the success of these new businesses, it is safe to assume they would have contributed positively to job creation.

6.4.2 Jobs Lost as a Result of Inward FDI

As noted above, greenfield investments are more likely to lead to job creation than mergers and acquisitions. In fact mergers and acquisitions are cited as often resulting in jobs lost as MNCs consolidate their support operations (such as head office functions). Mwilima (2003) notes that investments through mergers and acquisitions may, in the short term, result in job losses in the local company being taken over. She cites the example of the mining industry in Namibia that resulted in 9 000 jobs lost over a 12-year period.

The survey results indicate that of the majority of the MNCs that responded, only 19.4 % experienced jobs lost as a result of inward FDI. This is consistent

with the result that only 31.3 % of MNCs surveyed were in the form of mergers and acquisitions.

6.4.3 Overall Contribution by Inward FDI to Job Creation

The results in the survey indicate that the majority of MNCs interviewed agreed with the statement that inward FDI has led to job creation in South Africa. This is consistent with Fedderke and Rommôs (2006) findings that FDI has a positive impact on capital and labour in South Africa. However, the full benefit of job creation from FDI is limited by the type of FDI the country receives ï for example, mergers and acquisitions ï and the availability of a suitable level of skills in the country.

This section of the questionnaire concludes by inviting general comments on job creation by MNCs in South Africa. The following comments are highlighted (the full list of comments is included in Appendix D):

> ñFDI has not done much in terms of job creation, they need to work on that a bit more.ò
>
> ñYes, more can be done.ò
>
> ñMore jobs need to be created.ò
>
> ñIt depends on the industry.ò
>
> ñThe government is not able to cope with the high rate of unemployment hence MNCs should assist.ò
>
> ñThey have not done much because the unemployment rate is continuously on the increase.ò
>
> ñThey are doing a good job on that.ò
>
> ñI think they have played their part, thousands are employed by MNCs, for example, Ford SA.ò

The general comments above are mixed, with some respondents indicating that MNCs are contributing to employment in South Africa, while others see the need for a significant improvement in their contribution. At 25.3 %, the

rate of unemployment is high in South Africa when compared to similar emerging economies and, hence, the sentiments that MNCs have a crucial role in creating jobs in the country.

6.5 CONCLUSION

The results of the survey in this study have the limitation that they cannot be extrapolated to the rest of the population due to the method of sampling and the sample size. Convenience sampling was used to obtain participants for the survey based on their willingness to respond to the questionnaire. The results of this study may be useful, however, as a baseline study for future quantitative research or for a longitudinal study into the effectiveness of inward FDI in terms of skills development and job creation in South Africa.

The results indicate that a majority of MNCs in the survey had formal training programmes which provide a direct channel to skills development in South Africa. The results indicate that inward FDI in the form of greenfield investment provides better job creation opportunities than mergers and acquisitions which have resulted in jobs lost in 20 % of the respondents. While MNCs are seen as doing enough in terms of skills development, a lot more needs to be done in terms of creating more jobs in the country. To harvest the full benefits from inward FDI, the South African government ï through policy intervention ï can play a role in terms of influencing the type of inward FDI the country receives and directing it to sectors where it would have the most impact in line with government goals on skills development and job creation.

CHAPTER 7:
CONCLUSIONS AND RECOMMENDATIONS

7.1 INTRODUCTION

The purpose of this chapter is to draw conclusions from the analysis of the results presented in the previous chapter and to make recommendations for future areas of research based on the limitations of this study.

Inward FDI is cited by the IMF and the World Bank as being the solution for sustained economic growth for developing countries. This has motivated developing countries including South Africa to pursue policy changes such as investment incentives in order to attract inward FDI. However, the impact of inward FDI on economic growth, which has been widely researched, has yielded mixed results. Inward FDI impacts economic growth in developed countries more than in developing countries. Developed countries continue to be the recipients of the most inward FDI by far. This is because factors, other than incentives, play a crucial role in determining the level of inward FDI flows.

Inward FDI is seen not only as a source of foreign funding for developing countries but is also expected to lead to improved technological efficiencies, skills development for local workers through training, access to foreign markets and job creation. Lack of skills and unemployment are major challenges facing South Africa which have the potential to threaten the political stability of the country. The extent to which these benefits are realised depends on the type of inward FDI received and the ability of the host country to absorb them and utilise the opportunities they offer wisely.

7.2 CONCLUSIONS

This study had two research objectives, firstly, to determine the impact of inward FDI on skills development and secondly, to determine the impact of inward FDI on job creation. The research findings below address these objectives.

7.2.1 Impact of Inward FDI on Skills Development

Formal training programmes were the most prevalent channel of knowledge transfer in the MNCs surveyed compared to the other three channels through which inward FDI can impact skills development. Compared to the other channels, formal training programmes provide the most direct way of developing skills because they are structured and can be easily monitored.

The second most prevalent channel of knowledge transfer from the survey results is through MNCs assisting local suppliers to set up production facilities and demanding higher quality input products and reliable delivery times. This contributes to skills development as suppliers in South Africa are trained in new production techniques and the demand for higher quality spurs suppliers to be more efficient in their operations.

The least impactful channels through which MNCs in the survey contributed to skills development are knowledge transfer via skilled MNC employees joining domestic firms, and research and development activities. The lack of skills in the South Africa is an obstacle to these two channels as high skills are retained within the company and MNCsô research and development activities are most likely restricted to affiliate MNCs located in more innovative countries with an abundance of highly skilled resources.

The overall assessment ï and based on perceptions from MNCs in the survey ï is that inward FDI has a positive impact on skills development in South Africa which, in turn, will attract higher levels of FDI, reduce unemployment and contribute to economic growth. The extent of this impact cannot be measured directly because of the limitations of this study in terms

of sample size, the geographical spread of the sample, and the duration of the study.

7.2.2 Impact of Inward FDI on Job Creation

The majority of inward FDI in South Africa is in the form of mergers and acquisitions. Greenfield investments have a higher impact on job creation compared to mergers and acquisitions. This is evident in the results of this study as the majority of the respondents were in the form of start-up companies. Most MNCs in the survey recorded new jobs as result of inward FDI. More lower-skilled jobs were created compared to management-level jobs. The study, therefore, concludes that inward FDI impacts positively on job creation when in the form of greenfield investments.

Job creation can also occur through new domestic companies that are started by former employees of MNCs. The analysis of the results shows that this is not prevalent in South Africa as the trend indicates that few companies had more than 10 employees leave to start their own businesses. Assessing the number of jobs created by the new companies is limited by the scope of this study.

7.3 RECOMMENDATIONS TO STAKEHOLDERS

The findings above conclude that inward FDI has a positive impact on skills development and job creation in South Africa. The full potential extent of this impact can be achieved by improving the absorptive capacity of the South African economy. The South African government can facilitate this by improving the quality of education in the country as the availability of skills is affected not only by the level of inward FDI a country receives but also by its absorptive capacity of beneficial FDI spillovers.

The type of inward FDI a country receives also has bearing on the extent of the benefits of FDI such as job creation. As noted in the findings, greenfield investments have a positive impact on job creation. The South African

government, therefore, needs to encourage more investments of this type of inward FDI through policy interventions. China has targeted and restricted inward FDI to sectors in line with its economic goals. South Africa can learn from Chinaôs policy interventions on FDI.

7.4 RECOMMENDATIONS FOR FUTURE RESEARCH

A possible area for future research is on how policy incentives have affected the level and type of inward FDI in South Africa. The study should also include a cost-benefit analysis on the investment in inward FDI incentives on the South African economy.

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APPENDIX A:
SURVEY QUESTIONNAIRE

Good day, my name is é é é é é é é é é and I work for Quest Research Services, an independent market research company. We have been commissioned by an MBA Student in the University of Pretoriaûs Gordon Institute of Business Science to conduct a study to assess the impact of inward Foreign Direct Investment (FDI) on skills development and job creation in South Africa. This research is purely for academic purposes only and any information you provide will be kept confidential and results of the survey will be reported in an aggregated form that does not disclose the identity of individual respondents.

Company Information

Respondent name:

Company Name:

Sector:

1. Which of the following best describes your type of investment:

Start up (green field investment)	1
Merger	2
Acquisition	3
Other	4

SKILLS DEVELOPMENT BY MNCs IN SOUTH AFRICA

Skills development or knowledge transfer can take place through four channels which include: formal technical training; knowledge transfer by skilled workers leaving the employ of an MNC to join a local company; MNC assisting local suppliers establish production facilities and requiring reliable service delivery and quality goods; and through research and development services by MNC in the host country.

Formal technical training

2. Does the company have formal training programmes?

Yes	1
No	2

3. If ñYesò, who imposes the training programme?

Head Office of the company	1
Local company	2

4. Who is targeted for training within your organisation?

All the employees	1
Middle management	2
Senior management	3

5. How many employees have been trained before FDI and after FDI?

(Interviewer to record number of employees)

	Number of employees
Before FDI	
After FDI	

KNOWLEDGE TRANSFER BY SKILLED EMPLOYEES

6. How many skilled employees have left your company to join local companies?

None	1
1 to 10	2
11 to 20	3
More than 20	4

KNOWLEDGE TRANSFER TO LOCAL SUPPLIERS

7. Has the company been involved in the establishment of local suppliers, i.e. assisting with setting up of production facilities or technical training in new products that are required?

Yes	1
No	2

8. Does the company have supplier requirements in terms of higher standards of quality and delivery times?

Yes	1
No	2

9. Have the suppliers been trained in or made aware of these requirements?

Yes	1
No	2

RESEARCH AND DEVELOPMENT ACTIVITIES BY MNCs

10. Is the company involved in research and development of new products or technologies in South Africa?

Yes	1
No	2

11. How adequate has the skills development undertaken your company as result of the investment by the MNC?

Inadequately	1
Adequately	2
More than adequately	3

12. Do you have any comment on the impact of inward FDI by MNCs on skills development in South Africa? If ñYesò please specify.

JOB CREATION BY MNCs IN SOUTH AFRICA

Jobs are created when MNCs set up new operations in a host country and employ the local workforce. This type of inward FDI is called greenfield investment. Inward FDI can also occur through mergers and acquisitions. Job creation can also take place through employees leaving the employ of the MNC to start their own firms in order to supply the MNC.

13. How many management level jobs were created as a result of the investment by the MNC?

Less than 5	1
5 ï 10	2
More than 10	3

14. How many non-management level jobs were created as a result of the investment by the MNC?

Less than 50	1
50 ï 100	2
100 ï 200	3
More than 200	4

15. Were any jobs lost within your company as a result of the investment by the MNC?

Yes	1
No	2

16. How many employees have left your company to start their own companies in the same industry?

None	1
1 to 10	2
11 to 20	3
More than 20	4

17. How much do you agree with the following statement: inward FDI by MNC has resulted in the creation of jobs in South Africa?

Strongly disagree	1
Disagree	2
Neither agree nor disagree	3
Agree	4
Strongly Agree	5

18. Please add any other comments you have on the creation of jobs by MNCs in South Africa.

_____

_____

_____

THANK YOU FOR PARTICIPATING IN THIS SURVEY!

APPENDIX B:
RESEARCH AGENCY TECHNICAL REPORT

1. Introduction

The study was conducted from the 17th of August to the 23rd of September with the four major sectors in South Africa, which are:

- Manufacturing
- Mining
- Tourism
- Agriculture

The survey concentrated on Multinational companies which are based in South Africa. A total of 32 interviews were conducted.

2. Objectives of the study

The intention of the study was to investigate the impact of Foreign Direct Investment (FDI) on skills development and job creation in South Africa.

3. Methodology

QRS adopted a quantitative approach in the form of Computer Aided Telephone Interviews (CATI). Computer-assisted telephone interviewing is a telephone surveying technique in which the interviewer follows a script provided by a software application. It is a structured system of microdata collection by telephone that speeds up the collection and editing of microdata. The software is able to customize the flow of the questionnaire based on the answers provided, as well as information already known about the participant.

CATI function in the following manner:

- A computerized questionnaire is administered to respondents over the telephone.
- When contact is made, the interviewer reads the questions posed on the computer screen and records the respondent's answers directly into the computer.
- Interim and update reports can be compiled instantaneously, as the data is being collected.
- CATI software has built-in logic, which also enhances data accuracy.
- The program will personalize questions and control for logically incorrect answers, such as percentage answers that do not add up to 100 percent.
- The software has built-in branching logic, which will skip questions that are not applicable or will probe for more detail when warranted.

Advantages of CATI

- Reliable and complete data input
- Automatic adoption of responses from earlier questions
- Automatic filtering
- Full concentration of the interviewer on the important contents of questions and answers
- Direct recording of data from the interview ï no need for later data entry ï avoids an additional source of errors
- Data is available immediately
- Possible to integrate logos/pictures/commercials.

A structured interview, guided by a questionnaire which had both closed and open ended questions was used. Interviews were conducted in the respondentôs preferred language.

4. Sampling

A **Non Probability Convenience Sampling** technique was used to gather data. This means that interviews were conducted with anyone who was available from the given list.

Below is a list of sectors that we used for this study:

Sector	Number of companies	Total number of successful interviews
Manufacturing	301	24
Mining	47	2
Agriculture	28	2
Tourism	41	4

5. Field Challenges

- Most respondents were new in the organisation; therefore, they did not have much company information.
- Some respondents were not willing to give other information e.g. question that involved company turnover.
- Some respondents were not willing to take part in the survey

6. Quality Control

- Prior to commencing field work, all field teams had an orientation and training workshop to ensure they had a full understanding of the project and the data collection process they would be involved in.
- After the briefing, pilot interviews were executed to test the survey instrument
- All Interviews were supervised
- All the questionnaires were checked for consistency and logic.

Nonhlanhla Kunene

Research Executive

Quest Research Services

APPENDIX C:
COMMENTS ON THE CONTRIBUTION BY MNCS TO SKILLS DEVELOPMENT

Do you have any comment on the impact of inward FDI by MNCs on skills development in South Africa? If Yes specify		Frequency	%
	A lot has been done and we greatly appreciate that	1	3.1
	Cannot comment on this	1	3.1
	I think they have not played much of their role.	1	3.1
	it is still at its minimal levels more need to be done	1	3.1
	MNCs are playing their part	1	3.1
	More investment by MNCs must be encouraged	1	3.1
	More needs to be done on skills development	1	3.1
	Multi-National Companies should stop being greedy and invest on the	1	3.1
	No comment	20	62.5
	Organisations should try and do more in skills development	1	3.1
	The governmemnt has to lay down the base. make sure grassroot skills are readly available	1	3.1
	Foreign companies should fund themselves to train their staff	1	3.1
	This is what has to be done regularly or even made a law	1	3.1
Total		32	100.0

APPENDIX D:
COMMENTS ON THE CONTRIBUTION BY MNCS TO JOB CREATION

Please add any other comments you have on the creation of jobs by MNCs in South Africa.		Frequency	%
	FDIs have not done much in terms of job creation. they need to work on that a bit more	1	3.1
	i think they have played their part, thousands are employed by MNCs i SA eg Ford	1	3.1
	i would encourage them to get more employees from locals than they would bring in.	1	3.1
	it depends with the industry	1	3.1
	it will be a good thing if there can be more FDIs coming into the country because at the moment the jobs are not created	1	3.1
	Mainly bigger copmanies are able to create jobs but its difficult for small organisations to do that	1	3.1
	More jobs must be created	1	3.1
	More jobs need to be created	1	3.1
	More still has to be done	1	3.1
	No	2	6.3
	No comment	14	43.8
	No metter what MNCs do, there wont be a situation where job opportunities will equal the number of job seekers.	1	3.1
	The government is not able to cop with the high rate of unemployment hence MNCs should assist and create more jobs	1	3.1

	the government should first create an invester friendly envaronment. lay down the rules and regulations for FDIs as far as skills development and job creation is concerned	1	3.1
	They are doing a good job on that	1	3.1
	They have not done much because the unemployment rate continuously on the increase as well as their profits. Thats a sign of exploitation	1	3.1
	this is a good idea organisation should continue creating jobs	1	3.1
	yes more can be done	1	3.1
Total		32	100.0