KWAME NKRUMAH UNIVERSITY OF SCIENCE AND TECHNOLOGY

EXPLORING STRATEGIC INFLUENCES UNDERPINNING FOREIGN DIRECT INVESTMENT (FDI) PROJECTS AND INTERNATIONAL SUBCONTRACTING

A dissertation presented to the Department of Building Technology of the Kwame Nkrumah University of Science and Technology in partial fulfillment of the requirements for the award of a Master of Science (MSc.) honors degree in Construction Management.

BY:

AMENANO KWABENA GILBERT (BSc. Construction Technology and Management)

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DECLARATION

I hereby declare that, this project report is the result of my own work, except for the literature whose sources have been explicitly acknowledged and that, this submission has neither in whole nor in part been prescribed by another degree elsewhere.

GILBERT KWABENA AMENANO

(STUDENT) **DATE**

……………………………………….. ………………………………

I declare that I have supervised this student in undertaking the study reported herein and confirm that the student has my permission to present it for assessment.

DR. DE-GRAFT OWUSU-MANU

(SUPERVISOR) **DATE**

……………………….................... ....

DR. BERNARD K. BAIDEN

(HEAD OF DEPARTMENT) **DATE**

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ABSTRACT

Foreign Direct Investment and International Subcontracting are one of the mainly steady and efficiently significant streams of global finance to a nation. Despite governments' efforts to entice FDI and international subcontracting, Ghana has attracted relatively small inflows. The main aim of this research is to thoroughly investigate strategic influences underpinning FDI and international subcontracting. A literature review was undertaken and it delved into the benefits, challenges and strategic influences underpinning FDI and international subcontracting. Arising from this, questionnaires were used to gather data from respondents in the Accra metropolis. Quantitative approach was adopted. Purposive and snowball sampling techniques were employed. Fifty nine questionnaires were retrieved out of seventy distributed representing an eighty four percent response rate. The data were analyzed and presented using descriptive statistics and Relative Importance Index only. The results of this study pointed out that *level of trade policy of host country; specific incentive policies by host country's government; political stability; technological gap between host and foreign countries* and *number of bilateral investment treaties signed by host countries* were the most important strategic influences underpinning FDI. Furthermore, the findings also pointed out that *degree of competition, economic development; experience in similar projects, government policies* and *inflation* were the most important strategic influences underpinning international subcontracting. The findings from the study are useful for construction stakeholders, helping them to know the factors influencing FDI and international subcontracting and their impact on the construction industry. In spite of the significance of these findings, there are unavoidable limitations and shortcomings due to the scope and manner in which it was undertaken. It is recommended that government policies should focus on maintaining open oriented policies to continue to attract increased FDI and international subcontracting.

Keywords: Foreign Direct Investment, International Subcontracting, Strategic Influences

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DEDICATION

This project work is wholeheartedly dedicated to God Almighty and my family especially my lovely wife; Mrs. Matilda Amenano and my children Benedict Kwaku Amenano and Betty Amenano –Bese for their support and encouragement throughout this work .

KNUST

TABLE OF CONTENT

KNUST

KNUST

LIST OF TABLES

KNUST
NYANSAPƆ WƆSANE NO BADWENMA

LIST OF FIGURES

KNUST

NYANSAPƆ WƆSANE NO BADWENMA

CHAPTER ONE

INTRODUCTION

1.1 BACKGROUND OF THE STUDY

Foreign Direct Investment (FDI) is capital inflows from overseas that empower the capability of production of the economy and are typically favored as compared to other sources of finance externally because they are not debt creating, they are not volatile and their proceeds are dependent on the level of the projects performance funded by the investors (Organisation for Economic Co-operation and Development, 2002). In accordance with the International Monetary Fund guidelines, FDI is foreign investments in which the sponsor has above 10% shares the stock that is invested in. (International Monetary Fund, 2004). FDI flows are made up of two broad categories: (i) direct net transfers from the mother company to a foreign associate, by equity or debt, and (ii) reinvested incomes by a foreign associate.

Tremendous growth has been noticed in international FDI for the past 20 to 25 years . Entire accumulation Rahman ,S.M.,Ali,N.A.,Jennings,L., Shah,R.,Seraji,M.H.R.,Mannan, I., Shah, R., & Winch, P. J .(2010) . of FDI in 1980 came to just 6.6 per cent of the globe's Gross Domestic Product (GDP) however in the year 2003, this allocation had augmented to almost twenty three percent as found out by UNCTAD (2004). This spectacular expansion has occurred concurrently with a considerable increase in buying and selling internationally. This expansion in global surges of capital and goods indicates that worldwide far-away areas of the universal economy are becoming progressively more interlocked as economic activities are spread transversely around (CII, 2008). FDI remains a critical process in globalization since it deepens the relations between states, provinces, counties and industries. Enhancing international flows of assortment and direct investment, together with relocation constitute the process. The great increase in the capacity of FDI during the past twenty years provides a compelling motivation for exploration on this trend (Moosa, 2002).

To prevent implementing costly and probable detrimental enticement formats, it is imperative for policy architects in rising and developing economies to attain further intellectual capacity about the effects of FDI inflows and what host country aspects settle on the quantity of inflows (Alfaro *et al*., 2004). This awareness must assist decision makers adopting economic strategies to not only serve to draw FDI but maximize the advantages and mitigating the possible shortcomings of the FDI inflows the local economy obtains (IMF, 2004).

FDI has for a while become one of the most steady and economically crucial sources of capital internationally. From the early 1970s, direct investment has outpaced international trade and is now the overriding form of peripheral enlargement finance for advancing economies (Alderson, 2004). Bevan and Estrin (2000) argued that more macroeconomic and political strength of the local nation may eventually draw more foreign investments. Research by Caves (1992) and Singh and Jun (1996) showed that FDI and trade openness can be optimistically correlated as FDI flows can be well thought-out complementary to trade flows. According to Gelos and Wei (2005), institutions are important on FDI resolutions. The study discovers out that when the gauge on "autonomy from political demands, superiority of bureaucratic procedures" is graded loftily, it infers that there is a small non-economic charge for investors to put in, since there is less probability that the administration will get dishonest (Gelos and Wei, 2005).

Subcontracting is described as a structure of association between companies typically depending upon absolute or incomplete manufacture of services and goods (Holmes, 1986).

Subcontracting is the instance where the firm giving the subcontract asks for an additional autonomous enterprise to embark on the construction or carry out the dispensation of a material, constituent, element or assembly for it in line with the specification or plans offered by the firm giving the subcontract (Holmes, 1986). Holmes (1986) spots out three foremost types of subcontracting: capacity subcontracting, specialization subcontracting and supplier subcontracting.

The expression 'subcontracting' has had its conventional use when there exists a prime contractor in many instances in government procurement contracts and in construction projects (Sako 1992). There is an array of forces motivating the enhancement of international subcontracting, cost difference being an important element, but many broader influences have been at play, like the effect of merchants and decreasing of protection (Petroni, 2000).

International subcontracting has been made achievable because of the technological advantages in the telecommunications field aided by the internet. Space and time have shrunk, and it is effortless to divide organizational activities across the world. Further, the supply of low-cost workers in some countries, which have also concurrently progressed their telecommunications infrastructure, and their commerce, economic together with political environment, has eased the way of subcontracting. In some nations, subcontracting implies lower taxes (Oshri *et al.,* 2009). The common benefits of subcontracting are: focusing on the company's own nucleus proficiency, reducing operating costs and having access to the associate's knowledge, technical know-how, equipment and alliances. By focusing on the core competency with an outsourcing stratagem, the company can bring about unsurpassed global abilities (Devapriya and Ganesan, 2002).

1.2 PROBLEM STATEMENT

In spite of the efforts by governments to attract FDI, shareholders ponder the response to a crucial question: How secure is their investment? Eventually, the dedication to invest finite capital resources are driven by considerations beyond purely financial measures of expected returns, specifically: investment risk. Though sovereign debt default has similar risks, FDI faces exposure to further threats too, more exclusively, asset expropriation. Like many developing nations, Ghana takes part energetically in the worldwide competition for foreign direct investment (FDI). However, by all measurements, locally or internationally, Ghana as a country has gotten relatively little FDI inflows (Aryeetey *et al.,* 2008).

According to Rehman *et al*. (2010), confirmation reveals that foreign direct investment does reinforce current corruption pattern situation where high instances of corruption are already widespread. Boone (1996) also posits that whereas aid does enlarge government expenditure, this does not characteristically profit the deprived for the reason that money is squandered on worthless projects, army equipment, fraudulent procurement, and other expenses that provide ample opportunities for corruption, but do not typically create any earnings to service the loan or to bolster growth (Rehman *et al*., 2010).

While many organizations mull over moving to the subcontracting of range of production activities that they undertake within internally, they are consistently challenged with notable synchronization, organizational, and supply-chain questions. These comprise where the good or service should be manufactured, which company to be used in the overseas location, and what are the precise stipulations of importing/exporting procedures in the different countries concerned (Petroni, 2000). Quality assurance is a foremost issue, as is timely delivery of the different parts and the ultimate product, alongside managing the bureaucracies of diverse lands and payment structures. Giving answers to these is a challenging task, more so for companies that have insufficient experience internationally (Oshri *et al.,* 2009).

For the previous fifty to sixty years, the world has witnessed key adjustments in the composition of its manufacturing methods and processes. Declining transport together with communication costs, together with swift changes in technology, keen competition and liberalization of the economy has aided the process of worldwide economic incorporation. In return, international trade flows have been enhanced, and principally the sale of transitional merchandise through international subcontracting (Ofori *et al.,* 1999). In a bid to attain the standards that are internationally recognized and to be viable and compete worldwide, Ghana needs to put its potential to good use and to make itself attractive for international subcontracting and foreign direct investment. This research therefore seeks to explore the strategic influences underpinning foreign direct investment projects and international subcontracting.

1.3 AIM AND OBJECTIVES

1.3.1 Aim

This research was aimed at exploring the strategic influences underpinning foreign direct investment projects and international subcontracting.

1.3.2 Objectives

To attain the aim stated above, the following objectives were set:

1. To conduct an extensive literature review on foreign direct investment and international subcontracting;
2. To identify the negative effects of foreign direct investment and international subcontracting on host countries;
3. To assess the benefits of foreign direct investment and international subcontracting; and
4. To explore the strategic influences underpinning foreign direct investment projects and international subcontracting;

1.4 RESEARCH QUESTIONS

The following research questions are posed:

1. What is foreign direct investment and international subcontracting?
2. What are the effects of foreign direct investment and international subcontracting on host countries?
3. What are the benefits of foreign direct investment and international subcontracting?
4. What are the strategic influences underpinning foreign direct investment projects and international subcontracting?

1.5 SCOPE OF STUDY

The scope of this research study was restricted to foreign direct investors and foreign embassies in the Accra metropolis. The Accra metropolis was chosen as the area for this study because it is the capital city of the nation and has a wide range of foreign direct investment offices and embassies abundant in the area. Accra was as the scope reduced the problems of data collection, making it easier and faster to retrieve the questionnaires. Accra which serves as the nation's economic and administrative hub is home to a lot of construction projects and its related activities. This observable fact made it easier for the location of respondents for the study.

1.6 METHODOLOGY

The methodology used in this study consisted of critical review of relevant literature. Quantitative research strategy was adopted to extract the relevant data from the research participants. The literature review facilitated the development of a sound and vital questionnaire, which centered on the aim and objectives of the study. The inquiry largely depended on these survey questionnaires to assemble empirical data from the field. The questions on the questionnaires were ranked using Likert scale rating. Purposive sampling technique and the snow ball sampling technique were used to determine the sample size for the study. Descriptive statistics and Relative Importance Index were the statistical tools used for the analysis.

1.7 SIGNIFICANCE OF STUDY

Ghana being a developing country is faced with a major constraint to the provision of infrastructure in the form of financing and funding. However, FDI in Ghana has played an important role in promoting the market economy and competition; it also contributed to increasing the level of competition in the emerging markets.

This research aims to add to the ever-growing knowledge base in order to bridge the knowledge gap in understanding the importance of FDI and international subcontracting.

This research also aims at providing results that will be of relevance to academia and motivate others to delve deeper in investigating FDI and international subcontracting.

The construction industry will also be vital beneficiaries of this study.

1.8 STRUCTURE OF THE STUDY

This study consisted of five major chapters. Chapter one presented the introduction. The introduction was broken down to include the background to the study, problem statement, aim and objectives, scope, methodology, justification, limitations and the structure of the study. Chapter two presented literature related to the study. Chapter three discussed the methodology adopted for the study. Chapter four presented the results and discussions, and lastly the final chapter presents the summary, conclusion and recommendations.

CHAPTER TWO

LITERATURE REVIEW

2.1 INTRODUCTION

The previous chapter captured the background discussions on foreign direct investment which included the problem statement, research aims and objectives, scope, research questions and the research methodology. This chapter begins with critical review of literature in the factors influencing donor decisions on foreign direct investment (FDI) in donor dependent economies. It delves into the donor dependent economies, types of foreign direct investment and the influences which underpin foreign direct investment into these countries.

2.2 OVERVIEW OF THE CONSTRUCTION INDUSTRY

The term construction encompasses a broad spectrum of actions in building and civil engineering and comprises fresh works, refurbishments and preservation works (Oladapo,1974 cited in Hamilton, 2006). Oladapo (1974) continued to explain that the construction industry could be divided into two main branches, namely building and civil engineering. Building and civil engineering vary in many other respects. Hamilton (2006) said building project covers residential house, office complexes, ban house and other commercial units lie market stalls. They vary in size ranging from single room accommodation to bungalows and to high-rise buildings and Civil engineering works encompasses a wide range of different projects and constructed with different materials, *e.g.* roads, bridges, sewers, reservoirs, water towers just to mention a few. Also Strasser (1970) positted that the industry has several types of firms engaging in a variety of activities from heavy construction (such as work on highways and bridges) to special trade contractors (e.g., plumbing work and carpentering). The construction work is seasonal, hazardous, and subject to an extensive amount of time lost because of bad weather and industrial strife (Strasser, 1970)

2.1.1 The Ghanaian Construction Industry

Ghana in wanting to be the gateway to West Africa has been growing steadily its construction industry over the years (Anvuur and Kurnaraswamy, 2006). The construction industry in Ghana has within recent times metamorphosed into two segments: the official sector: which takes up an assortment of procurement directions (Anvuur and Kurnaraswamy,2006) and the informal division which is labour intensive. In Ghana, four major clients who are distinctive in the construction business are: the Government, property expanders, financiers and proprietors (Gyadu-Aseidu, 2009).

2.2 DONOR DEPENDENT ECONOMIES

Aid dependency is the instance where a country will not be able to carry out majority of the central functions of government, for example procedures and preservation, or the execution of essential community operations, devoid of foreign support, subsidies and knowledge (Brautigam, 2000).

The importance of FDI as a way of attaining wealth is very progressively more imperative to sub Saharan African (SSA) countries. Furthermore, Kamara,J.M. (2013) affirmed that in the past, FDI was the most significant supply of peripheral money in countries that are developing, especially those in Sub-Saharan Africa (SSA). This is because income levels and household savings in this area are dreadfully low (Aseidu, 2002).

Proportions of aid to gross national inome (GNI) , gross capital formation, inports and government spending help give an idea of the level of dependency on aid. OECD (2002) confirmed that developing countries, countries which are emerging and countries in evolution have now gradually more to see FDI as a channel of economic development and modenisation, earnings augmentation and employment thereby classifying them as donor dependent. Bevan and Estrin (2000) in their study also attested that a nation in transition is the country which transforms its economy from communism to free entreprise and capitalism. In addition, the business dictionary has labeled an up-andcoming economy as a swiftly rising and unpredictable economies of certain latin America and Asian countries which have the promise of mammoth probability for expansion yet create a momentous political, fiscal and social risk.

2.3 INFRASTRUCTURE DEVELOPMENT IN DEPENDENT ECONOMIES

Jerome (1999) confirmed that infrastructure has a crucial position to play in influencing the general productivity and improvement of a state's economy, and in addition the worth of life of the inhabitants. Furthermore, this is confirmed by Kessides (2004) and Kirkpatrick *et al.,* (2006) that in dependent countries of which the most are the developing nations, advanced indispensable infrastructure amenities like sanitation and water, energy, power, transportation and telecommunications are identified to be a necessary contributory factor to economic growth and development which is sustainable.

However, Jerome (1999) positted that the word infrastructure has a plethora of interpretations and definitions, with the military being the first to use infrastructure to describe war logistics for the period of the Second World War. The performance of government-owned givers of infrastructure, diverge from one nation to another, their general performance in these dependent economies has been awfully pitiable (Jerome, 1999). Kirkpatrick*et al.,* (2006) disputed that infrastructure was the restricted territory of the communal sector, that is government was accountable for the investment and delivery of service but these public enterprises in charge for providing infrastructure are expensive and ineffective providers of infrastructure in almost all budding countries.

In a similar fashion, NEPAD-OECD (2010) stated that reliant governments are presently the principal supporters of infrastructure for both material projects and procedures and preservation of assets but government spending is not adequate to link the gap amid dependent government and non dependent ones. NEPAD-OECD (2010) additionally expanded that there are several challenges to emergent dependent economy's infrastructure since infrastructural projects are extremely capital exhaustive, however domestic fiscal markets are not widened sufficiently to be able to finance these projects. Because of this in current decades, the private sector is progressively more engrossed in the funding and release of infrastructural services. A great number of developing countries have set up private contribution into their infrastructure sector (Kirkpatrick *et al.,* 2006).

A topical account on the demand for services of infrastructure in budding nations in 2005 to 2010 shows that yearly investment and preservation expenses could equal, at least, US$465 billion yearly (Kirkpatrick *et al.,* 2006).

2.4 FOREIGN DIRECT INVESTMENT AND INTERNATIONAL SUBCONTRACTING

FDI is not simply a transfer of business interest from domestic to foreign recipients. FDI creates an opportunity to exercise management and control over host country firms in many ways but these controls are not in the interest of these host countries which are dependent on them (Ahmad, 2014). Foreign direct investment is foreign investors moving their resources into another country where they have control over the management of assets and profits.Low-income developing countries are thereby force to depend upon foreign capital to break their capital constraint. Because of this most of these less developed countries have accepted external help in various forms, such as donations, aids, loan and foreign direct investment (Ahmad, 2014).

Ahmad (2014) argued that bulk of foreign investment comes from the developed and economically powerful countries into developing and relatively less efficient countries. Bouoiyour (2007) verified that in spite of the disagreements that characterize the advantages and disadvantages of FDI, majority of dependent nations have at this moment transformed their guidelines from restricting towards enhancing foreign investment.

2.4.1 Types of foreign direct investment and international subcontracting

Four principal intentions exist that propel the quest to invest overseas. These are largely depicted as resource seeking, market seeking, strategic asset seeking and efficiency seeking. These motives are mainly the types of FDI (Ajayi, 2006).

2.5 STRATEGIC INFLUENCES UNDERPINNING FDI AND INTERNATIONAL SUBCONTRACTING

Ahmad (2014) points out that many developing countries in the world are eager to attract FDI and international subcontracting as the sure way to increase the momentum of their economies but basically the level of incentives required to attract FDI and international subcontracting inflows largely depend on the eagerness of the host country and the amount of risk associated in doing business in that country. Furthermore Knirsch (1994) claims that the western investor is going to invest his capital where there is the highest anticipated profit on his investment and where the market prospects are pronounced.

What are the factors that attract FDI and international subcontracting? Rebecca and Larry (1995) affirm that the key geographical influences are the typical basis of relative benefits of the host nation. Below are some factors that influence FDI and international subcontracting:

2.5.1 Exchange rates policy

The stability of exchange rate is a crucial underpinning influence of FDI. Dedication to permanent exchange rate has an effect on FDI and international subcontracting in a positive manner. Upholding steady actual exchange rates is the greatest path a nation can undertake (Kamar and Bakardzhieva, 1998). Exchange rate strategies are very necessary for getting FDI and international subcontracting, these approaches relate to both the echelon of the real rate of exchange and the hazard associated to the supposed rate. They both influence foreign investment decisions (Benassy, *et al.,* 2000).

2.5.2 Finding reliable partners

According to Sader (1999), investors would be willing to recognize associates who can provide extra scientific and technical proficiency and shore up finance, maintenance and the construction aspects. Completion of project and potential procedures decisively depend on the consistency of every partner engaged and so they yearn to discover a local associate or to incorporate a public enterprise for these support if not found nonetheless could harm the feasibility of the operation. Infrastructural projects are inclined to be extremely big to be sponsored by a singular institution only. Due to the distinctive political character and technological complication of those operations, shareholders naturally desire to allocate the hazard to a certain extent instead bearing alone.

2.5.3 Institutions

According to Rebecca and Larry (1995), host nation organizations do have effect on the decisions of investment since they expressly have an effect on production functioning circumstances. Associational and officially permitted inadequacies like erratic directives, bureaucracy, confiscatory taxes and challenges in implementing agreements are significant obstructions to FDI and international (Kamar and Bakardzhieva,1998).

Hence Sader, F. (2000) confirms that classified infrastructural projects involve intensive contract, and the extended time perspective of the majority of these works enhances the peril of contractual disagreements. Financiers do desire to be realistically convinced that any such difference of opinion can be resolved moderately, either by the local legal arrangement or by way of mediation.

2.5.4 Political Stability

Political threat has an effect on the worth of an intercontinental company and international subcontracting by way of revolutions in potential cash flows and investors' required returns. The cash flow influence of political threat is apparently of attention to investors. The unavailability of democracy, the internal unsteadiness, and the perceptions of deep-seated government transformations all operate akin to encumbrances to a nation's capability to draw FDI and international subcontracting (Kamar and Bakardzhieva, 1998).

2.5.5 High tax rates

Blonigen, B. (2005) states that interest in the consequences of taxes on FDI and international subcontracting has been substantial from mutually international and public economic analysts. A palpable premise is that superior taxes put off FDI and international subcontracting with the more vital question one of enormity.

2.5.6 Market Accessibility

A large and emergent market is the foremost strategic influence for all firms (Michalet, 2000). Nevertheless, Kamar and Bakardzhieva (1998) advocated that it is no more just another meaning for an immense household market but to a greater extent, international investors are mostly drawn by large and increasing sectional markets. Jordaan (2004) further posited that FDI and international subcontracting will progress to nations with better and intensifying markets and larger purchasing influence, where companies could possibly obtain an elevated gain on their assets and by inference get superior earnings from their assets.

2.5.7 Infrastructure development

Aseidu (2002) confirms that the ability to obtain superior infrastructure is an influence underpinning attracting FDI and international subcontracting, irrespective of the kind of FDI. Excellent infrastructure enhances the output that investment encourages FDI streams into any economy. Odi *et al*. (2013) further concurs with this debate that infrastructure should be advanced particularly with the supply of water, road system, transportation amenities *etc.* since if they are not offered, business outfits incur superfluous costs providing which may comprise increase the cost of capital and administration cost to firms.

2.5.8 Resource endowment

A nation's natural endowments of resources are ingredients which stimulate the site choice in foreign direct investment and international subcontracting (Bouoiyour (2007) and Kamar and Bakardzhieva, 1998). In relation to FDI in Africa, sixty percent of it is assigned to oil and resources of nature (Morriset, 2001). Ajayi (2006) states that the accessibility and presence of natural resources is a strategic influence underpinning FDI and international subcontracting, and this is vitally so in dependent economies like the majority of African nations where a great number of shares of FDI and international subcontracting has existed in nations that have copious resources of nature. In some cases, the profusion of natural endowments has been intertwined with a great local market. Dependent economies which have been able to influence most FDI have been those with mineral and natural endowments and hefty domestic markets.

2.5.9 Investor and Investment Laws

Bevan *et al*. (2004) proposed that effective lawful infrastructure decreases institutional reservations for foreign investors and international subcontracting and it assists the organization and enforcement of contracts and lessens the transaction costs of transacting business.

A nation may have a faultlessly designed concessions basis and yet not encourage foreign investors to invest in their economy if investors are not guarded by law. Investors need reassurances that their investments are safe and must have legal alternative in the incident a deal goes wrong (Hill, 2011). Ajayi (2006) asserts that Ghana has made enthusiastic efforts over the recent years to stimulate and attract foreign investment into the nation through institutional and lawful structures, mediums, and supporting campaigns.

2.5.10 Competitive Labour

Population by itself is an immense prospective for accelerating economic growth. A learned and accomplished manpower can improve material resourced obtainable in a nation (Ahmad, 2014). According to Alessandrini and Resmini (2000), the accessibility of competent manpower becomes a major consideration consequently foreign companies have a preference for locations that have a highly skilled labor force. This is for the reason that it reduces cost of labour which decreases the expenditure of production (Ajayi, 2006). Sometimes, the availability of cheap labour justifies the relocation of a part of the production process in host nations (Pigato, 2001).

2.5.11 Diversifying risk

Infrastructural projects bring about extraordinary perils. An example is commercial risk which comprises the well-timed construction and technical performance of the amenities, and including the quality and quantity of the service rendered. Political risks represent those engaged by public specialists which have characterized the business environment. Investors are enthusiastic on shading these threats to the parties best furnished to contain them hence they shield themselves from risks that are not dependent on their own work and beyond their power (Sader,1999).

2.6 ADVERSE EFFECT OF FOREIGN INVESTMENT AND INTERNATIONAL SUBCONTRACTING ON HOST COUNTRIES

OECD (2002) states that, there are numerous systems by which FDI and international subcontracting may influence the host nation's financial development. The effects of FDI and international subcontracting could be advantageous or disadvantageous. However beyond the benefits, FDI and international subcontracting can also bring expenditures to the host nation's economy (Mencinger, 2003).

2.6.1 Adverse effects on employment

Foreign investors can cause unemployment by sacking local workers, by hording out indigenous industries that cannot contend with the outside investors (Zinlinske, 2010). In addition, OECD (2002) asserted that the utilization of advanced technology by international and foreign firms causes the necessitation for fewer employees than that used by indigenous companies, and the likelihood of substitution of these companies by others that use a fewer quantity of workers will lead to the consequential increase in joblessness and unemployment.

2.6.2 Adverse effects on competition

Even though FDI and international subcontracting can stimulate competition in the host country's economy, it occasionally puts an encumbrance on the host government because auxiliaries of foreign investors could possess superior economic supremacy than indigenous participants. If it is a part of large international organization, the foreign investors may be able to draw on resources engendered somewhere else to fund its expenses in the local industry, which could force indigenous firms out of work and permit the outside firm to dominate its market (Kurstishi-Kastrati, 2003).

2.6.3 Adverse effects on export

The investment made may have its major intent of supplying the host industry and consequently do not promote sale overseas (Ram and Zhang, 2002). Mencinger (2003) proposes that FDI and international subcontracting have superior influence for imports than for exports, which also has impact on the balance of payments. The strong influence that FDI has on imports is because multinationals have enormous need of goods and raw materials, and more often than not, are unavailable, either quantitatively or in qualitatively, in the host country therefore they import these materials due to the great stipulations they put on their purchases in that case discouraging export (OECD, 2002).

2.6.4 Adverse effect on domestic capital

The draining of money and capital in the domestic country because of the sending back of profits is considered by Sahoo and Mathiyazhaga (2003). Whereas Zinlinske (2010) confirms that income or wealth is created in the host country, it may not necessarily cause an amassing of finance and wealth that would eventually profit the host economy. On the opposite, this finance and wealth is relocated back to the domicile countries.

2.6.5 Adverse effect on host authorities

OECD (2002) avows that because of the transnational size and their influences on the local economies, their key decisions can lead to important changes in the local nation, not dependent on the host country's stratagems, and may possibly exist at variance with nationwide policies. Big foreign direct investment and international subcontracting companies get command over resources and recruitment, which allows them to control the governmental and economic decisions of the host country authorities (Zhang, 2001). Also Zhang (2001) detected that demands exacted by these investors on local authorities to accomplish and attain gains in their operations may end up in policies that are not complimentary to indigenous nation fiscal augmentation. Thus, multinationals cause twists in the local nation guidelines to advantage rather foreign investors (Ram and Zhang, 2002).

2.6.6 Adverse effect on technology transfer

In transferring technology, negative effects can be brought about. In a research by Vissak and Roolaht (2005), the local nation may over rely on the knowledge which is brought about by foreign investors and other nations which are developed. This eventually leads to a lowering in local companies' profit in the discovery of new technologies. According to Sen, A. (1999), worldwide companies could possibly possess undesirable response to host nation research in order to carry on holding a technological advantage compared to local firms so that the local country dependence on multinationals' technology will be persisted.

2.7 BENEFITS OF FOREIGN DIRECT INVESTMENT AND INTERNATIONAL SUBCONTRACTING

FDI flows and international subcontracting may have a productive influence on a nation's progress tendencies and financial augmentation through technical innovations, transmission of expertise, professional and market proficiency, thereby causing the improvement of efficiency (Lim, 2001). Therefore Michalet (2000) corroborates that many budding nations have achieveed structural reorganizations so as to have a favourable atmosphere for nationwide and overseas investment, regarding political and macro-economic steadiness. Below are some benefits of FDI and international subcontracting in an economy.

2.7.1 Resource Transfer Effects

International subcontracting and foreign direct investment can have a constructive input to a local nation's economy in way of providing money, technical expertise and administration resources that may not have been available. This transfer of resource is capable of kindling the augmentation of the host countries' economy (Hill, 2000).

2.7.2 Employment benefits

Foreign investment and international subcontracting come about by varying means of access. Each one mode may have diverse influence on employment. Occupations are generated when international investors establish a new auxiliary (Eimers, *et al.,* 2004). In reliant economies where finance is comparatively in short supply but labour is copious, there is formation of job creation openings which is an influential benefit of FDI and international subcontracting. The straight impact is seen in thhe instance when a investors take up some citizens of the host nation (Kurstishi-Kastrati, 2003).

2.7.3 International Trade

According to Kurstishi-Kastrati (2003), the impact of FDI and international subcontracting on local nation's international trade will show a discrepancy depending on its object. FDI may have a considerable contribution to growth of economy in developing countries by propping up overseas and export growth of the countries. Production that arises from efficiency-seeking FDI and international subcontracting is specifically aimed for sales overseas and consequently increases in sales overseas from the local nation.

If indigenous firms provide contributions to affiliates producing goods for exports, the indigenous constituent of value added overseas sales will be more. In case transitional goods are introduced from outside the local economy, efficiency-seeking FDI and international subcontracting will increase overseas sales and importing. On the other hand, since some value-adding practices happen within the local economy, the general influence will be an enhancement in the trade equilibrium in the long run (KurstishiKastrati, 2003).

2.7.4 Influence on Competition

Since foreign direct investment and international subcontracting cause increases in technology, it enhances the height of competition in the local economy of the developing country which has exerted a pull on the foreign direct investment Nunnenkamp,P.(2001); Kurstishi-Kastrati (2003) states that the existence of foreign ventures may enormously support development of the economy by spurring local competition and hence leading finally to elevated output and efficiency, reduce prices and increased efficient resource allotment. Augmented competition leads to the arousing of capital investments by companies in equipment and plants even as the host firms struggle to achieve an advantage over their competitors.

2.7.5 Capital

Regarding the concern of capital, foreign direct investors invest long-standing projects, undergoing risks and returning profits merely when the projects bring about returns. The open stream of assets across nations supports economic growth because it permits the uppermost rate of return (Hill, 2000).

2.7.6 Technology

New technologies are transmitted by way of guidance, practical support and other knowledge given so as to develop production excellence and magnitude of produce that the transnational acquires (OECD, 2002). OECD (1991) concluded that the enormous preponderance of fiscal studies relating to the affiliation between FDI and international subcontracting on one side and efficiency and economic increase on the other hand, have established that technology transfer by way of FDI has impacted optimistically to productivity and economic growth in the local countries. FDI and international subcontracting is a channel to make better a nation's economic way of performance by way of the transmission effect of more sophisticated technologies brought about by foreign investors.

2.7.7 Management

Kurstishi-Kastrati (2003) elucidated that by knowledge transfer, FDI and international subcontracting will augment the existing accumulation of knowledge in the local nation's economy by way of labour training, transfer of skills, and the transfer of new professional and administrative practice. Blomstrõm, Magnus and Ari Kokko (1997) affirm that indigenous and local firms can become skilled at and make use of management techniques from foreign investors and assist in raising the competitiveness level. Spillover influence and impact to human capital appear come about when skilful management staff from foreign owned firms settle on working at locally owned companies. Further, Kurstishi-Kastrati (2003) proposed that the profit may occur if the advanced administration expertise of foreign direct investors attracts domestic dealers, retailers and competitors to enhance their own proficiency of management.

2.8 CHAPTER SUMMARY

This chapter reviewed literature on the factors influencing donor decisions on foreign direct investment (FDI) in donor dependent economies. It also delved into the donor dependent economies, types of foreign direct investment and the influences which underpin foreign direct investment into these countries.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 INTRODUCTION

This chapter presents the methodology used for the research. It deals with concerns on research strategy, design and process. It specifically throws light on the population under study, sample and sampling techniques adopted, the collection of data instruments and methods of data analysis.

3.2 RESEARCH DESIGN

A research design is the outline or plan for a study used as a guideline in accumulating and interpreting data (Al-Moghany, 2006). It is a cycle of steps connecting research questions to the data collected. Research design is the plan that directs the researcher in the procedure of gathering, analyzing and inferring observations (Nachmias and Nachmias, 1992). It is a rational process of evidence that permits the researcher to conclude inferences regarding causal relations among the variables being investigated (Nachmias and Nachmias, 1992).

Research design is a used to attain answers to questions being studied (Al-Moghany, 2006; Polit and Hungler, 1999). It is also used to cater some of the challenges that may be encountered during the research process (Al-Moghany, 2006; Polit and Hungler, 1999; Naoum, 1998). It is not possible for researchers to presuppose that people think in a particular way without asking them what they consider (Al-Moghany, 2006). According to Polit and Hungler (1999), the research design usually specifies which research approach to be taken on and how the researcher intends to put into practice scientific controls to improve the interpretability of the outcomes. Research has shown that there are different survey designs that may be used to put up with varying essential needs and problems if those challenges are forecasted in the scheduling of the review (Al-Moghany, 2006; Weisberg and Bowen, 1977). According to Naoum (1998), the most extensively used data collection technique used to conduct surveys to find out facts, opinions and views of people is the structured questionnaire.

3.2.1 RESEARCH APPROACH

An effective way to increase the validity of any social research is to illustrate the research approach (Cresswell, 2007). The deductive approach was used to undertake this study. This is because the researcher had to determine the concepts that present significant aspects of the problem under investigation. These identified concepts were then transformed into observables to enhance quantitative empirical testing.

3.2.2 RESEARCH STRATEGY

The strategy adopted for this research was quantitative research. The strategy engaged the use of a structured questionnaire survey. The questionnaire survey was employed to allow the researcher bring about generalization that would add to theory and allow the investigator to foretell, elucidate and comprehend phenomenon (Naoum, 2002).

3.3 RESEARCH PROCESS

The literature review presented in Chapter two provided the relevant theoretical background to undertake this study. This research was designed by considering the philosophical view point, the research approach, research strategy, activities and methods. It was designed to meet the objectives of the study.

3.4 POPULATION SAMPLING AND SAMPLING TECHNIQUE

The target population for the study consisted of foreign direct investors and foreign embassies in the Accra metropolis. Purposive and snowball sampling techniques were employed. Snowball led to one organization leading the researcher to other organizations with similar characteristics being sought for. This was done until a representative sample size of seventy (70) was obtained.

3.5 SOURCES OF DATA

Primary and secondary sources of data were used in the study. The primary sources included the first-hand data obtained by the researcher through the questionnaire.

Relevant books, journals, magazines, etc. were among the secondary sources of data.

3.6 RESEARCH INSTRUMENT

The research data was obtained primarily through the use of structured questionnaires.

3.6.1 QUESTIONNAIRE DESIGN

The questionnaires were prepared and separated into two parts. The first portion sought their background information. The second part required the respondents to rank the negative effects of FDI and international subcontracting on the Likert scale of 1 to 5, where 1= not severe and 5= very severe. Part three further sought benefits of FDI and international subcontracting on the Likert scale of 1 to 5, with 1= not important and 5=very important. The final part of the questionnaire required the respondents to identify strategic factors underpinning FDI and international subcontracting by ranking the factors on the Likert Scale of 1 to 5.

3.7 PROCEDURE FOR DATA COLLECTION

The questionnaires were administered to the respondents through a face-to-face session with some being retrieved immediately and others taken at a later time.

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3.8 ANALYSIS OF DATA

The obtained questionnaires were edited to ensure their completeness. The data obtained were arranged to ensure easy analysis. Computable data from the questionnaires was coded into the Statistical Package for Social Sciences (SPSS) software. The statistical techniques discussed below were employed to analyze the data collected from the survey. Descriptive statistics and Relative Importance Index (RII) were employed in analyzing the data. Relative Importance Index (RII) was used to rank the identified variables where, W = the weighting given to each cause by respondents, ranging from 1 to 5, A = the highest weight (i.e. 5 in the study), N = the total number of samples. This was used in ranking the significant factors in terms of degree of importance.

$$RII = \frac{\Sigma W}{A*N}$$

3.9 CHAPTER SUMMARY

This chapter presented the methodology used for the research. It dealt with concerns on research strategy, design and process. It specifically threw light on the population under study, sample and sampling techniques adopted, the collection of data instruments and methods of data analysis.

CHAPTER FOUR

DATA ANALYSIS AND DISCUSSION OF RESULTS

4.1 INTRODUCTION

After finishing the introduction, literature review and the research methodology, this chapter is the data analysis and discussions of results by means of Statistical Package for Social Sciences (SPSS). The respondent profile is analyzed by employing descriptive statistics while the dependent variables are analysed using Relative Importance Index and mean score index.

The first segment tackles the profile of the respondents. The additional segment also captured comprehensive analysis of the explicit objectives of the research.

Out of the 70 questionnaires distributed to respondents, 59 questionnaires representing 84 percent were completed and retrieved. These questionnaires constituted the basis of the whole research findings used in the analysis.

4.2 ANALYSIS OF DEMOGRAPHIC DATA

This section is the results of the descriptive analysis. This was to assist give an understanding of the profile of the respondents. The relevance of knowing the background of the respondents is to help have assurance in the reliability of data collected.

4.2.1 Length of existence of organization

The study sought to first identify how old the organizations for the survey were. Analysis from the figure below showed that 37 percent of the organizations were less than 10 years old. Furthermore, 58 percent representing majority have been in existence for 11-20 years. 3 percent are 21-30 years old. Finally, 2 percent are more than 30 years old. The implication is that, all these organizations have been in existence for an appreciable number of years and therefore qualify to provide information on Foreign Direct Investment and International Subcontracting.

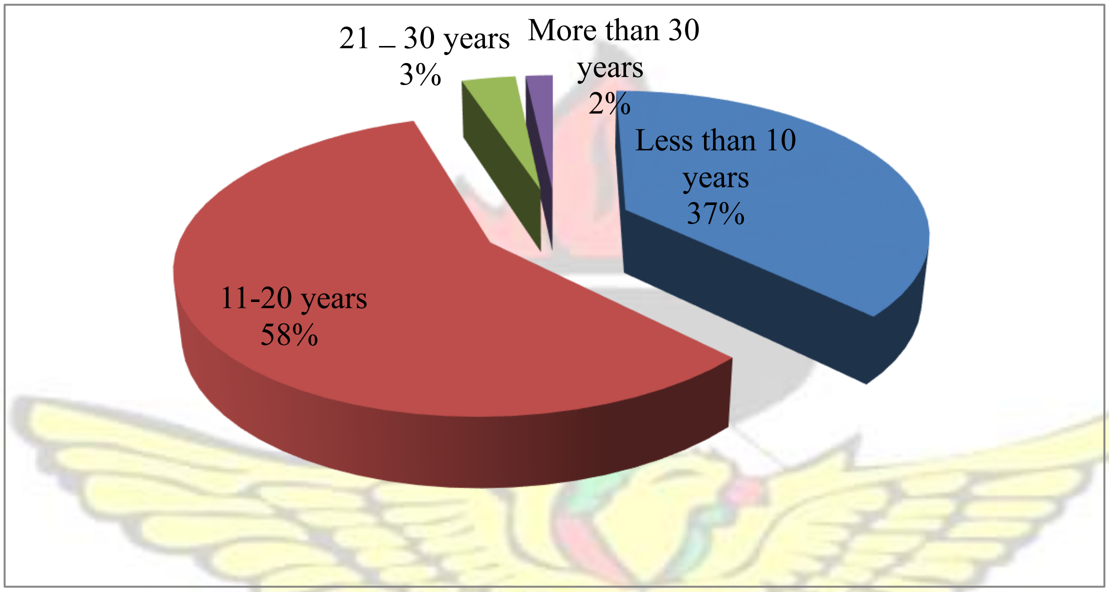

Figure 4.1 Length of existence of organization

4.2.2 Experience of respondents

This section sought to identify the number of years the respondents had worked. From the figure below, 20 percent of the respondents had less than 5 years experience.

Furthermore, 29 percent had worked for 5-10 years. Finally, the remaining 51 percent representing majority had worked for above 10 years. This implies that this research as a fusion of experienced respondents and therefore their responses can be accepted.

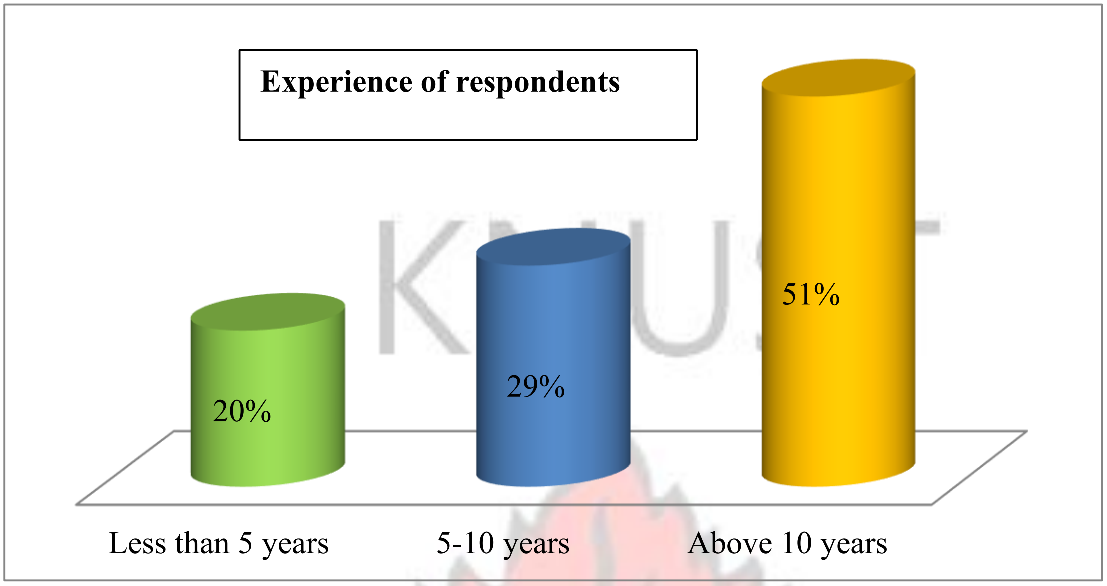

Figure 4.2 Experience of respondents

4.2.3 Frequency with which organization invests in infrastructure in this country

Respondents of this study were asked the rate of frequency with which their organization invests in infrastructure in this country. The figure below indicates their responses. 5 percent of the respondents indicated not frequently. Another 14 percent indicated less frequently. Furthermore, 20 percent of the respondents chose moderately frequent. In addition, 39 percent of the respondents representing majority indicated their organizations invested frequently in infrastructure in this country. Finally, 22 percent indicated very frequently. The implication is that majority of the organizations invested heavily in infrastructure development in Ghana which is a positive development.

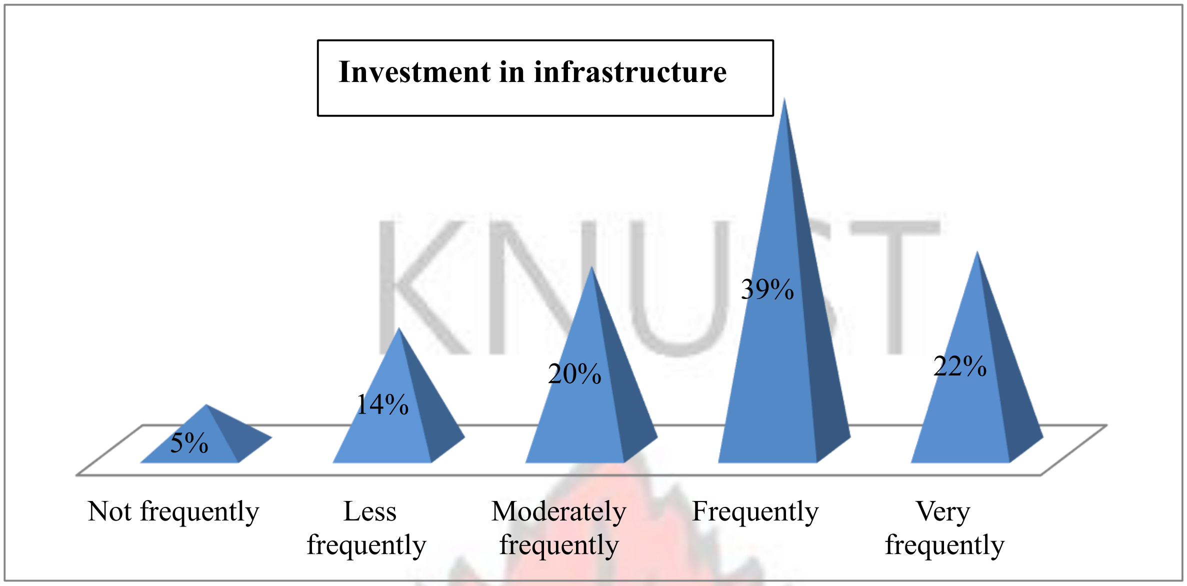

Figure 4.3 Frequency with which organization invests in infrastructure in this country

4.3 NEGATIVE EFFECTS OF FOREIGN DIRECT INVESTMENT AND INTERNATIONAL SUBCONTRACTING ON HOST COUNTRIES

Respondents were asked in this section to rank the negative effects of Foreign Direct Investment and International subcontracting on a Likert scale of 1 to 5 where 1 = Not severe, 2 = Less severe, 3 = Moderately severe, 4 = Severe and 5 = Very severe. Relative Importance Index (RII) was used to analyse the data. The mean as well as RII scores of all fifty nine (59) respondents were calculated and have been presented below. From Table 4.1 under the negative effects of FDI, *difficulty in implementation of economic policies* was ranked 1st with a mean of 4.05and RII of 0.810. *Corruption* was ranked 2nd with a mean of 3.90 and RII of 0.780. *Negative effect on host country export* was ranked 3rd with a mean of 3.69 and RII of 0.739. *Decline in host country's autonomy* was ranked 4th with a mean of 3.52 and RII of 0.705. *Widened wage and income inequalities* was ranked

5th with a mean of 3.31 and RII of 0.661. According to literature, OECD (2002) avows that because of the transnational magnitude and their influences on the host economies, their deliberate choices can lead to considerable transformations in the local nation, not dependent on the host country's stratagems, and may possibly be at variance with nationwide policies. Big foreign direct investment and international subcontracting companies get command over resources and recruitment, which allows them to manipulate the lawmaking and financially viable resolutions of the local nation authorities (Zhang, 2001). Also Zhang (2001) monitored that forces exerted by these investors on host authorities to achieve and attain gains in their operations could finally result in regulations that are not approving to host country economic growth. Thus, multinationals cause twirls and alterations in the host nation policies to profit rather foreign investors (Ram and Zhang, 2002).

OECD (2002) additionally stresses that due to the multinationals size and their influences on local economies, their strategic decisions can cause crucial changes in the host country, independent of the local authorities' strategies, and could even be conflicting with national policies. Large foreign direct investment and international subcontracting companies get control over resources and employment, which enables them to influence the governmental and economic decisions of the host country authorities (Zhang, 2001). The findings confirm literature.

4.1 Negative Effects of Foreign Direct Investment on Host Countries

NEGATIVE EFFECTS	*FREQUENCY*					*TOTAL*	∑*W*	*MEAN*	*RII*	*RANK*
	1	***2***	***3***	***4***	***5***					
FDI										
Difficulty in implementation of economic policies	2	3	14	16	25	*59*	239	4.05	0.810	1
Corruption	4	6	11	9	29	*59*	230	3.90	0.780	2
Negative effect on host country export	8	4	10	13	24	*59*	218	3.69	0.739	3
Decline in host country's autonomy	10	2	12	17	18	*59*	208	3.52	0.705	4
Widened wage and income inequalities	9	8	9	22	11	*59*	195	3.31	0.661	5
Competition over limited resources	8	15	2	25	9	*59*	189	3.20	0.641	6
Restrictive business practices	11	6	15	17	10	*59*	186	3.15	0.631	7
Discouragement of invention due to technology transfer from foreign investors	6	12	19	15	7	*59*	182	3.08	0.617	8
Limited skilled manpower	13	12	12	12	10	*59*	171	2.89	0.579	9
Environmental degradation	8	10	25	15	1	*59*	168	2.85	0.569	10

From Table 4.2 under the negative effects of international subcontracting, *risk of exposing confidential data* was ranked 1st with a mean of 4.14 and RII of 0.827. *Threat to security and confidentiality* was ranked 2nd with a mean of 3.97 and RII of 0.793. *Loss of managerial control* was ranked 3rd with a mean of 3.93 and RII of 0.786. *Quality problems* was ranked 4th with a mean of 3.68 and RII of 0.736. *Lower than expected realization of benefits and results* was ranked 5th with a mean of 3.41 and RII of 0.681.

Table :

In a research by Vissak and Roolaht (2005), the local country may excessively rely on the technologies which are brought about by foreign investors and other nations which are developed. This eventually causes a reduction in local companies' interest in the discovery of new technologies. According to Sen (1998), worldwide companies may possibly have an undesirable response to host nation research in order to carry on holding a technological advantage compared to local firms so that the local country dependence on multinationals' technology will be persisted.

The investment made may have its major intent of supplying the host market and thus do not promote overseas sales (Ram and Zhang, 2002). Mencinger (2003) proposes that international subcontracting have an exceeding superior influence for importations than for exportations, which also causes influence on the balance of payments. The strong influence that FDI has on imports is because multinationals have enormous need of goods and raw materials, and more often than not, are unavailable, either quantitatively or in qualitatively, in the host country therefore they import these materials due to the high demands they place on their procurements in that case discouraging export (OECD, 2002). The findings confirm past literature.

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4.2 Negative Effects of International Subcontracting on Host Countries

NEGATIVE EFFECTS	*FREQUENCY*					*TOTAL*	*∑W*	*MEAN*	*RII*	*RANK*
	1	*2*	*3*	*4*	*5*					
INTERNATIONAL SUBCONTRACTING										
Risk of exposing confidential data	2	3	9	16	29	*59*	244	4.14	0.827	1
Threat to security and confidentiality	5	4	7	15	28	*59*	234	3.97	0.793	2
Loss of managerial control	4	4	9	17	25	*59*	232	3.93	0.786	3
Quality problems	8	4	11	12	24	*59*	217	3.68	0.736	4
Lower than expected realization of benefits and results	3	10	8	18	20	*59*	201	3.41	0.681	5
High unemployment	7	17	19	6	12	*59*	182	3.08	0.617	6
Inappropriate categorization of responsibilities	8	8	29	4	10	*59*	177	3.00	0.600	7
Bad publicity	12	3	30	8	6	*59*	170	2.88	0.576	8
Hidden costs	17	13	10	13	6	*59*	155	2.63	0.525	9
Issues relating to lingual accent variation	15	17	15	10	2	*59*	144	2.44	0.488	10

4.4 BENEFITS OF FOREIGN DIRECT INVESTMENT AND INTERNATIONAL SUBCONTRACTING

Respondents were asked in this section to rank the benefits of Foreign Direct Investment and International subcontracting on a Likert scale of 1 to 5 where 1 = Not important, 2 = Less important, 3 = Moderately important, 4 = Important and 5 = Very important.

Relative Importance Index (RII) was used to analyse the data. The mean as well as RII scores of all fifty nine (59) respondents were calculated and have been presented below.

Table :

From Table 4.3, *transfer of technology* was ranked 1st with a mean of 4.31 and RII of 0.861. *Generation of foreign currency* was ranked 2nd with a mean of 4.05 and RII of

0.810. *Transfer of marketing skills* was ranked 3rd with a mean of 3.97 and RII of 0.793. *Increase in productivity through foreign portfolio investment* was ranked 4th with a mean of 3.93 and RII of 0.786. *Tax revenue contribution* was ranked 5th with a mean of 3.69 and RII of 0.739.

According to literature, FDI flows may have a productive influence on a country's development prospects and economic growth through technical innovations, transfer of know-how managerial and marketing skills, which leads to the improvement of efficiency (Lim, 2001). Therefore Michalet (2000) corroborates that many budding nations have achieveed structural reorganizations so as to have a favourable atmosphere for nationwide and overseas investment, regarding political and macro-economic steadiness.

Regarding the concern of capital, foreign direct investors invest long-standing projects, undergoing risks and returning profits only when the projects bring about returns. The open stream of capital across countries is possible to be supported by a lot of economists because it permits capital to request for the uppermost rate of return (Hill, 2000).

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4.3 Benefits of Foreign Direct Investment

BENEFITS	***FREQUENCY***					***TOTAL***	$\sum W$	***MEAN***	***RII***	***RANK***
	1	***2***	***3***	***4***	***5***					
FDI										
Transfer of technology	2	3	4	16	34	*59*	254	4.31	0.861	1
Generation of foreign currency	2	3	14	16	25	*59*	239	4.05	0.810	2
Transfer of marketing skills	5	4	7	15	28	*59*	234	3.97	0.793	3
Increase in productivity through foreign portfolio investment	4	4	9	17	25	*59*	232	3.93	0.786	4
Tax revenue contribution	8	4	10	13	24	*59*	218	3.69	0.739	5
Mitigate scarcity of capital	7	11	17	10	14	*59*	190	3.22	0.644	6
Improved access to export	8	15	2	25	9	*59*	189	3.20	0.641	7
marketsGeneration of foreign currency	7	17	19	6	12	*59*	182	3.08	0.617	8
Infrastructural expansion	6	20	14	4	15	*59*	179	3.03	0.607	9
Integration of host country into global economy	6	24	7	12	10	*59*	173	2.93	0.586	10

From Table 4.4 under the benefits of international subcontracting, *higher productivity and efficiency* was ranked 1st with a mean of 4.17 and RII of 0.834. *Technology transfer* was ranked 2nd with a mean of 4.14 and RII of 0.827. *Financial support* was ranked 3rd with a mean of 4.05 and RII of 0.810. *Cost reduction* was ranked 4th with a mean of 3.90 and RII of 0.780. *Higher quality* was ranked 5th with a mean of 3.69 and RII of 0.739.

According to Kurstishi-Kastrati (2003), the impact of FDI and international subcontracting on local nation's international trade will show an incongruity depending on its object. International subcontracting may have a considerable contribution to growth of economy in developing countries by propping up overseas and export growth of the countries.

Table :

Production that arises from efficiency-seeking international subcontracting is specifically aimed for sales overseas and consequently increases in exports from the local nation.

If local firms provide contributions to affiliates producing goods for exports, the indigenous content of value added overseas sales will be more. In case transitional goods are introduced from outside the local economy, efficiency-seeking FDI and international subcontracting will increase overseas sales and importing. On the other hand, since some value-adding practices happen within the local economy, the general influence will be an enhancement in the trade equilibrium in the long run (Kurstishi-Kastrati, 2003).

Table 4.4: Benefits of International Subcontracting

BENEFITS	***FREQUENCY***					***TOTAL***	***∑W***	***MEAN***	***RII***	***RANK***
	1	***2***	***3***	***4***	***5***					
INTERNATIONAL SUBCONTRACTING										
Higher productivity and efficiency	2	4	6	17	30	*59*	246	4.17	0.834	1
Technology transfer	2	3	9	16	29	*59*	244	4.14	0.827	2
Financial support	2	3	14	16	25	*59*	239	4.05	0.810	3
Cost reduction	4	6	11	9	29	*59*	230	3.90	0.780	4
Higher quality	8	4	10	13	24	*59*	218	3.69	0.739	5
Accessing regions with potential growth prospects	3	10	8	18	20	*59*	201	3.41	0.681	6
Efficient mechanism to respond to demand fluctuations	9	10	12	13	15	*59*	192	3.25	0.651	7
Risk mitigation	7	11	17	10	14	*59*	190	3.22	0.644	8
Economies of scale	7	17	19	6	12	*59*	182	3.08	0.617	9
Use of spare capacity	6	20	15	5	13	*59*	176	2.98	0.597	10

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4.5 STRATEGIC INFLUENCES UNDERPINNING FOREIGN DIRECT INVESTMENT PROJECTS AND INTERNATIONAL SUBCONTRACTING

Respondents were asked in this section to rank the strategic influences underpinning Foreign Direct Investment and International subcontracting on a Likert scale of 1 to 5 where 1 = Not important, 2 = Less important, 3 = Moderately important, 4 = Important and 5 = Very important. Relative Importance Index (RII) was used to analyse the data. The mean as well as RII scores of all fifty nine (59) respondents were calculated and have been presented below. From Table 4.5 under the strategic influences for FDI, *level of trade policy of host country* was ranked 1^{st} with a mean of 4.15 and RII of 0.831.

Specific incentive policies by host country's government was ranked 2^{nd} with a mean of 4.14 and RII of 0.827. *Political stability* was ranked 3^{rd} with a mean of 4.05 and RII of 0.810. *Technological gap between host and foreign countries* was ranked 4^{th} with a mean of 3.52 and RII of 0.705. *Number of bilateral investment treaties signed by host countries* was ranked 5^{th} with a mean of 3.31 and RII of 0.661.

Political stability has an effect on the worth of an intercontinental company and international subcontracting by way of revolutions in potential cash flows and investors' required returns. The cash flow influence of political threat is apparently of attention to investors. The unavailability of democracy, the internal unsteadiness, and the perceptions of deep-seated government transformations all operate akin to encumbrances to a nation's capability to draw FDI and international subcontracting (Kamar and Bakardzhieva, 1998).

A nation's natural endowments of resources are ingredients which stimulate the site choice in foreign direct investment (Bouoiyour (2007) and Kamar and Bakardzhieva, 1998). In relation to FDI in Africa, sixty percent of it is assigned to oil and resources of nature (Morriset, 2001). Ajayi

(2006) states that the accessibility anmd presence of natural resources is a strategic influence underpinning FDI, and this is vitally so in dependent economies like the majority of African nations where a great number of shares of FDI and international subcontracting has been in nations with copious natural resources. In some cases, the profusion of natural resources has been intertwined with a great local market. Dependent economies that have been able to influence most FDI have been those with mineral and natural resources and hefty domestic markets.

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Table 4.5: Strategic influences underpinning Foreign Direct Investment

INFLUENCES	*FREQUENCY*					*TOTAL*	∑*W*	*MEAN*	*RII*	*RANK*
	1	***2***	***3***	***4***	***5***					
FDI										
Level of trade policy of host country	1	3	11	15	29	*59*	245	4.15	0.831	1
Specific incentive policies by host country's government	2	3	9	16	29	*59*	244	4.14	0.827	2
Political stability	2	3	14	16	25	*59*	239	4.05	0.810	3
Technological gap between host and foreign countries	10	2	12	17	18	*59*	208	3.52	0.705	4
Number of bilateral investment treaties signed by host countries	9	8	9	22	11	*59*	195	3.31	0.661	5
Host country's level of technological development	8	15	2	25	9	*59*	189	3.20	0.641	6
Trade orientation of investing firm	20	3	4	20	12	*59*	178	3.02	0.603	7
Availability of skilled manpower	13	12	12	12	10	*59*	171	2.89	0.579	8
Capital intensity of industries	8	10	25	14	2	*59*	169	2.86	0.572	9
Size of host country	10	10	26	8	5	*59*	165	2.80	0.559	10

From Table 4.6 under the strategic influences for international subcontracting, *degree of competition* was ranked 1st with a mean of 4.34 and RII of 0.868. *Economic development* was ranked 2nd with a mean of 4.25 and RII of 0.851. *Experience in similar projects* was ranked 3rd with a mean of 3.98 and RII of 0.797. *Government policies* was ranked 4th with a mean of 3.90 and RII of 0.780. *Inflation* was ranked 5th with a mean of 3.69 and RII of 0.739. According to literature, Sader (1999) posits that investors would be willing to recognize associates who can provide extra scientific and technical proficiency and shore up finance, maintenance and the construction aspects. Completion of project and potential procedures decisively depend on the consistency of every partner engaged and so they yearn to discover a local associate or to incorporate a public enterprise for these support if not found nonetheless could harm the feasibility of the operation. Infrastructural projects are inclined to be extremely big to be sponsored by a singular institution only. Due to the distinctive political character and technological complication of those operations, shareholders naturally desire to allocate the hazard to a certain extent instead bearing alone.

Table 4.6: Strategic influences underpinning International Subcontracting

INFLUENCES	*FREQUENCY*					*TOTAL*	*∑W*	*MEAN*	*RII*	*RANK*
	1	*2*	*3*	*4*	*5*					

INTERNATIONAL SUBCONTRACTING										
Degree of competition	1	3	6	14	35	*59*	256	4.34	0.868	1
Economic development	3	2	4	18	32	*59*	251	4.25	0.851	2
Experience in similar projects	2	8	4	20	25	*59*	235	3.98	0.797	3
Government policies	4	6	11	9	29	*59*	230	3.90	0.780	4
Inflation	8	4	10	13	24	*59*	218	3.69	0.739	5
Elasticity of supply	3	10	8	18	20	*59*	201	3.41	0.681	6
Nature of goods	7	17	19	6	12	*59*	182	3.08	0.617	7
Elasticity of demand	6	20	14	4	15	*59*	179	3.03	0.607	8
Rate of exchange	6	20	15	5	13	*59*	176	2.98	0.597	9
Size of country	10	12	30	4	3	*59*	155	2.63	0.525	10

CHAPTER FIVE

SUMMARY OF FINDINGS, RECOMMENDATIONS AND CONCLUSION

5.1 INTRODUCTION

Chapter five presents the summary of findings of the study based on the data collected from the field. It further concludes the study and makes recommendations on strategic influences underpinning Foreign Direct Investment (FDI) and international subcontracting.

5.2 ACHIEVEMENT OF RESEARCH OBJECTIVES

5.2.1: Adverse effects of FDI and International Subcontracting

Relative Importance Index was used to analyze the data. The following were found in descending order to be the adverse effects of FDI:

- *Transfer of technology;*
- *Generation of foreign currency;*
- *Transfer of marketing skills;*
- *Increase in productivity through foreign portfolio investment; and Tax revenue contribution.*

The following were found in descending order to be the benefits of international subcontracting:

- *Productivity and efficiency;*
- *Technology transfer;*
- *Financial support*; *Cost reduction; and Higher quality.*

5.2.2: Benefits of FDI and International Subcontracting

Relative Importance Index was used to analyze the data. The following were found in descending order to be the benefits of FDI:

- *Difficulty in implementation of economic policies;*
- *Corruption;*
- *Negative effect on host country export;*
- *Decline in host country's autonomy; and □ Widened wage and income inequalities.*

The following were found in descending order to be the adverse effects of international subcontracting:

- *Risk of exposing confidential data;*
- *Threat to security and confidentiality;*
- *Loss of managerial control;*
- *Quality problems; and*
- *Lower than expected realization of benefits and results.*

5.2.3: Strategic influences underpinning FDI and International Subcontracting

Relative Importance Index was used to analyze the data. The following were found in descending order to be the strategic influences underpinning FDI:

- *Level of trade policy of host country;*
- *Specific incentive policies by host country's government;*
- *Political stability;*

- *Technological gap between host and foreign countries; and*
- *Number of bilateral investment treaties signed by host countries.*

The following were found in descending order to be the strategic influences underpinning international subcontracting:

- *Degree of competition;*
- *Economic development;*
- *Experience in similar projects;*
- *Government policies; and Inflation.*

5.3 CONCLUSION

FDI and international subcontracting are crucial sectors in raising revenue for a nation. They are also a means to economic development, modernisation, income growth and employment. Governments should therefore strive to put in place policies to enhance FDI and international subcontracting in their countries.

5.4 RECOMMENDATIONS

Incentives should be used to attract Foreign Direct Investment (FDI) flows and international subcontracting into the country. These incentives include introducing tax holidays, relaxing regulatory framework, and supporting investment promotion agencies that are responsible for drawing FDI and international subcontracting.

The government must assess the developmental needs of the people and target international subcontracting and Foreign Direct Investment accordingly. Policies should then be set up that will serve as a guide to the process of development.

Foreign Direct Investment and international subcontracting should only be allowed under specific nationally accepted stipulations. They must also conform to specific requirements of performance to help create a positive impact on the overall development of the nation.

5.5 DIRECTION FOR FUTURE RESEARCH

Similar studies should be conducted on cost effective policies in the construction industry that aid in generating more revenue from Foreign Direct Investment and international subcontracting

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APPENDIX

KWAME NKRUMAH UNIVERSITY OF SCIENCE AND TECHNOLOGY
DEPARTMENT OF BUILDING TECHNOLOGY

QUESTIONNAIRE

TOPIC: "EXPLORING STRATEGIC INFLUENCES UNDERPINNING FOREIGN DIRECT INVESTMENT (FDI) PROJECTS AND INTERNATIONAL SUBCONTRACTING"

I am a post graduate student of the Kwame Nkrumah University of Science and Technology (KNUST) conducting a research on strategic influences underpinning foreign direct investment (FDI) projects and international subcontracting.

This is for academic purposes and all information will be treated with confidentiality.

Your response would be highly appreciated for the success of the research. Thank you.

PART ONE: RESPONDENT PROFILE

1. What is the name of your organization/institution?

………………………………………………………

2. How long has the organization been in existence?

[ ] Less than 10 years

[ ] 11-20 years

[ ] 21 – 30 years

[ ] More than 30 years

3. How long have you been working with this organization?

[ ] Less than 5 years

[ ] 5-10 years

[ ] Above 10 years

4. How frequently does your organization invest in infrastructure in this country?

[ ] Not frequently

[ ] Less frequently

[ ] Moderately frequently

[ ] Frequently

[ ] Very frequently

PART TWO

1. NEGATIVE EFFECTS OF FOREIGN DIRECT INVESTMENT AND INTERNATIONAL SUBCONTRACTING ON HOST COUNTRIES

Please rank the negative effects of FDI and international subcontracting on host countries using the following Likert scale **[1= Not severe; 2= Less severe; 3=Moderately severe; 4= Severe; 5= Very severe]**. Please tick (√) in the space provided.

	FDI	**1**	**2**	**3**	**4**	**5**
1	Competition over limited resources					
2	Negative effect on host country export					
3	Limited skilled manpower					
4	Restrictive business practices					

5	Widened wage and income inequalities					
6	Difficulty in implementation of economic policies					
7	Decline in host country's autonomy					
8	Corruption					
9	Environmental degradation					
10	Discouragement of invention due to technology transfer from foreign investors					
	INTERNATIONAL SUBCONTRACTING					
1	Hidden costs					
2	Threat to security and confidentiality					
3	Quality problems					
4	Bad publicity					
5	Loss of managerial control					
6	Risk of exposing confidential data					
7	Inappropriate categorization of responsibilities					
8	Issues relating to lingual accent variation					
9	Lower than expected realization of benefits and results					
10	High unemployment					

2. BENEFITS OF FOREIGN DIRECT INVESTMENT AND INTERNATIONAL SUBCONTRACTING

Please rank the benefits of FDI and international subcontracting using the following Likert scale **[1= Not important; 2= Less important; 3=Moderately important; 4= Important; 5= Very important]**. Please tick (√) in the space provided.

	FDI	**1**	**2**	**3**	**4**	**5**
1	Increase in productivity through foreign portfolio investment					
2	Transfer of technology					
3	Tax revenue contribution					
4	Generation of foreign currency					
5	Transfer of marketing skills					

6	Infrastructural expansion					
7	Increase capital stock of host countries					
8	Mitigate scarcity of capital					
9	Improved access to export markets					
10	Integration of host country into global economy					
	INTERNATIONAL SUBCONTRACTING					
1	Cost reduction					
2	Higher quality					
3	Efficient mechanism to respond to demand fluctuations					
4	Accessing regions with potential growth prospects					
5	Higher productivity and efficiency					
6	Use of spare capacity					
7	Technology transfer					
8	Economies of scale					
9	Risk mitigation					
10	Financial support					

3. STRATEGIC INFLUENCES UNDERPINNING FOREIGN DIRECT INVESTMENT PROJECTS AND INTERNATIONAL SUBCONTRACTING

Please rank the strategic influences underpinning FDI and international subcontracting using the following Likert scale **[1= Not significant; 2= Less significant; 3=Moderately significant; 4= Significant; 5= Very significant]**. Please tick (√) in the space provided.

	FDI	**1**	**2**	**3**	**4**	**5**
1	Host country's level of technological development					
2	Trade orientation of investing firm					
3	Availability of skilled manpower					
4	Capital intensity of industries					

5	Technological gap between host and foreign countries					
6	Political stability					
7	Level of trade policy of host country					
8	Specific incentive policies by host country's government					
9	Number of bilateral investment treaties signed by host countries					
10	Size of host country					
	INTERNATIONAL SUBCONTRACTING					
1	Elasticity of demand					
2	Elasticity of supply					
3	Nature of goods					
4	Economic development					
5	Rate of exchange					
6	Size of country					
7	Degree of competition					
8	Inflation					
9	Government policies					
10	Experience in similar projects					