THE STRATEGIC LOCATION OF REGIONAL HEADQUARTERS FOR MULTINATIONALS IN AFRICA: SOUTH AFRICA AS A HOST COUNTRY

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Introduction

No company can operate at a global scale by centralizing all decisions and then farming them out to the entire world for implementation (Ohmae, 1989). The conditions in each market are too different and in some cases changes in market conditions are too rapid to accommodate long distance management. It is for this reason that many multinational companies have opted to establish regional headquarters (RHQs) in the different markets where they operate. The establishment of these regional offices allows multinational companies to have a local insight of the market, competition landscape and customer preferences. With such detailed insight, multinational companies are then able to formulate effective and responsive regional strategies. In addition, multinationals can improve competitiveness and differentiation against local companies by drawing from global resources such as finance, technology, bulk procurement, human capital and research to address regional customer requirements (Ambos & Birkinshaw, 2010; Ambos & Mahnke, 2010; Chen, 2008).

The importance and value of RHQs in the academic literature has generally focused on RHQs in industrialized countries (Asakawa & Lehrer, 2003; Doz & Prahalad, 1984; Hewett, Roth, & Roth, 2003; Piekkari, Nell, & Ghauri, 2010) although there has been an increasing focus on the Asian markets too (Holt, Gray, Purcell, & Pedersen, 2000; Lasserre, 1996). The result is that we do not yet fully possess an overall framework for understanding how value and decisions are devolved, how location decisions are made (certainly less so than with FDI flows), and how their structures and strategies are evolving to accommodate the growth in emerging markets. For example, are MNEs devolving the same amount of value and decision-making powers to RHQs in emerging markets as they would if they were located in industrialized host countries? In terms of location of RHQs in emerging markets, how do MNEs deal with institutional voids? This issue becomes all the more pressing in Africa which arguably has amongst the most uncertain institutional environments. In this paper we examine the dominant criteria used by MNEs to choose their locations for RHQs in Africa by examining South Africa as a host country for the continent with specific reference to the advantages of agglomeration and the accompanying economies of scale, the role of distance, and a sound institutional environment. The hegemony of South Africa on the African continent lends itself as a natural entry point for multinationals seeking to do business in Africa (see Luiz and Charalambous (2009); Luiz and Stephan (2012)). The topic is important because thus far there is no literature focused on location criteria for RHQs in Africa and indeed very little on the role of MNEs in Africa in general and the continent increasingly represents the last frontier to international business.

1. Literature Review: Criteria for Identifying RHQs Location

RHQs are intermediaries between corporate headquarters and country branches or subsidiaries themselves located in a number of countries. Dicken (2003, p. 239) explains it as follows:

Regional headquarter constitutes an intermediate level in the corporate organizational structure, having a geographical sphere of influence encompassing several countries…

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Their primary responsibility is to integrate the parent company's activities within a region, that is, to coordinate and control the activities of the firm's affiliates (manufacturing unites, sales offices, etc.) and to act as the intermediary between the corporate headquarters and its affiliates within its particular region.

As organizations pursue foreign markets as part of their growth strategies, they are faced with the trade-off of local responsiveness and global integration. This has to be accommodated in their strategies and structures and in their organizational control (see Luiz and Visser (2014)). In response to this challenge, multinational organizations have embraced the concept of RHQs. The regionalization of the different regions such as the European Union, Association of South-East Asian Nations, and North American Free Trade Area has highlighted the relevance of RHQs (Lasserre, 1996). By establishing RHQs aligned to these economic regional groups, multinationals are able to simplify the segmentation of their global markets and formulate effective regional strategies. Through a regional presence, multinationals can also benefit from trade agreements that normally exist within the regional communities.

The number of RHQs has been increasing as more multinational organizations realize the benefits of improved responsiveness associated with regional strategies. Whilst the literature examining the importance of location factors for FDI is rich, much less is understood about how the location decisions for RHQs are made or integrated this into a theoretical framework (Birkinshaw, Braunerhjelm, Holm, & Terjesen, 2006; Laamanen, Simula, & Totstila, 2012). At a fundamental level, Holt et al. (2000) find nine dimensions used by multinational organizations in selecting the location of RHQs: favorable government incentives; low operating costs; low living costs; favorable financial environment; effective regional links; compatibility with home base; supportive business environment; economic IT infrastructure; and favorable employment relations. But making sense of these factors within a broader theoretical context of foreign locational decision making is still a challenge for international business. We contribute to this understanding by integrating these factors into three key themes within the international management literature: the role of spatial agglomeration, institutions and distance.

1.1 Spatial Agglomeration

Looking at the spread of RHQs globally reveals a concentration around key cities or what Friedmann (1986) has termed 'world cities'. These cities are increasingly used as basing points by global capital often housing corporate headquarters of MNEs or their regional offspring, and progressively bringing 'control functions' together. They are usually important centers of global transport and centers of communication and information. Part of the explanation for these spatial agglomeration effects has been captured by the work of the 'new economic geographers' based upon the economic analysis of agglomeration production on the assumptions of increasing returns and imperfect competition. Porter (1998) has applied this to his work on clusters (geographically concentrated groupings of interlinked firms) that enhance firm competitiveness through better access to suppliers, employees, and information, economies of scale, innovation facilitation, and reduced transaction costs. Birkinshaw et al. (2006) show than MNEs move to locations that are more attractive in terms of industrial agglomeration, and applying this concept to RHQs, Tan (2007, p. 74) maintains that for effectively managing their global empire, MNEs prefer to locate their RHQ in large nodal cities and service hubs where global reach, the flow of instruction, ideas and data to regional offices, branch plants, affiliates and subsidiaries can be more efficiently coordinated and controlled. Therefore MNEs prefer to move to and stay in locations with the characteristics of (1) strategic positioning with sufficient transport and communication infrastructure; (2) high quality external services with a particular type of labor market, especially people skilled in information processing; (3) rich in social and cultural amenities; and (4) good institutional social factors including people's working attitude, loyalty, productivity, skill, etc. Tan (2007) raises another interesting point around the need for face-to-face contact that MNEs still require even with the phenomenal ICT developments. The problems of asymmetric information loom large in a competitive market economy and a healthy relationship between contracting parties may grow through regular contact and relational proximity which enhances trust and reduces transaction costs. Whilst standardized financial information may be cheap and quick to transmit with current communication technology, the quality of non-standardized information may decline sharply as a result of distance between parties. Tan uses the example of a business rumor which spreads rapidly through global networks but traders further from the source find it harder to verify the information to act on it. All this reinforces the importance of agglomeration for RHQs in key cities with the best access points and which act as epicenters of global financial transactions.

1.2 Institutional Voids

The MNEs headquarters location literature has often focused on traditional push and pull variables associated with the attractiveness of the business climate in different destinations (Birkinshaw et al., 2006; Laamanen et al., 2012). In developing countries, institutional voids make the business environment more complex and often raise the cost of doing business because the rules of the game are not clearly defined and are subject to manipulation. It is clear that organizations are merely a component of the broader institutional framework which affects our economic interactions. So for example, the transaction costs of doing business in a country could be raised by either underdeveloped formal institutions or by destructive informal rules and norms – weak property rights, discretionary power on the part of the state, the unpredictability of the investment environment, the lack of informal social capital structures, the impact of distributional conflict mobilized along ethnic lines, and the direct disruptive impacts of political instability. These institutional voids often provide severe challenges for MNEs from the developed world because of their lack of experience of doing business in this sort of milieu (see Khanna and Palepu (2010)). In general they come from countries where governments have a long tradition of courting business by lowering costs associated with doing business through the easing of tax burdens, the provision of various incentives, strict laws prohibiting corruption, and of course high levels of political stability. These conditions very seldom apply in the developing world where governments often have a very ambivalent relationship with business and where populist anti-business sentiments is often just below the surface.

In general, business in developing countries faces much larger regulatory burdens than those in developed countries. They face three times the administrative costs, and nearly twice as many bureaucratic procedures and delays associated with them. And they have fewer than half the protections of property rights of rich countries (World Bank, 2005, p. 3). This is most certainly the case in Africa and the World Bank's Doing Business datasets illustrate the comparatively higher costs of doing business in Africa versus more developed countries. African economies are slowly starting to liberalize and the environment is therefore gradually becoming more familiar. A number of African countries already have business environments which approximate that in the industrialized world – South Africa being a case in point and the latter is therefore often used as a platform for investment into the rest of the continent. We have also seen large improvements in the regulatory environments in countries like Ghana, Uganda, Mauritius, Rwanda, Botswana, Namibia, and Senegal. Nonetheless doing business in Africa is exceptionally 'foreign' to most MNEs as it is a continent they have little experience of and where weak institutions are the norm. This raises the risk of doing business in these countries and the associated transaction costs. MNEs are therefore likely to search for the most familiar business environment where the rules of the game approximate that of their home countries.

1.3 The Role of Distance

Ghemawat (2001) argues that companies routinely exaggerate the attractiveness of foreign markets because they lose sight of the vast difficulties of pioneering new, often difficult territories. He goes on to say that most of the costs and risks of doing business in a new market result from barriers created by distance. Whilst some have argued that geography no longer matters because of developments in ICT and transport which are shrinking the world, he maintains that distance still matters and that companies must explicitly account for it when making decisions about global expansion. Laamanen et al. (2012) find that a central location which minimizes distance represents a pull factor which increases the attractiveness of HQ location. This can be applied to locational decisions for RHQs as well.

Ghemawat (2001) maintains that distance between two countries can manifest itself along four basic dimensions, namely cultural, administrative/political, geographic and economic. We highlight two of these. 1) Cultural distance – The country's cultural attributes such as religion, social norms, race and language can influence how people interact with other people or institutions and influence the choices consumers make. In choosing a location for RHQs, multinational companies prefer destinations with a much smaller cultural distance from the home country so as to minimize the risks of 'mistakes' that arise from cultural distance. 2) Economic distance – The wealth or income of consumers is the most important economic attribute that creates distance between countries. Rich countries engage in relatively more cross-border economic activity relative to their economic size than do their poorer counterparts. Most of this activity is with other rich countries. However, this is rapidly changing with the growth of South-South trade and the emergence of greater co-operation amongst emerging markets. In establishing regional headquarters, it would therefore make sense for multinational companies to look at the most economically successful countries in the targeted region.

2. Research Methodology

A semi-structured interview survey process using one-on-one interviews that incorporated both closed as well as open-ended questions was used. The population of the research covered foreign multinational organizations that have a presence in South Africa and the sample, in turn, focused on local market leaders in their respective sectors. All respondents were either country managing directors or part of the

Tab. 1: List of multinationals that formed part of study

No.	MNE	Home Country	Sector	Revenue Currency	Global Revenue for 2010
1	Accenture	US	Technology	Dollar	$21 billion
2	BMW	Germany	Motor Vehicle	Euro	€60.5 billion
3	Dell	US	Technology	Dollar	$52.9 billion
4	Deloitte	UK	Audit and Consulting	Dollar	$26.6 billion
5	GEA	Germany	Manufacturing	Euro	€4.4 billion
6	IBM	US	Technology	Dollar	$99.9 billion
7	Mercedes Benz	Germany	Motor Vehicle	Euro	€97.8 billion
8	Microsoft	US	Technology	Dollar	$62.5 billion
9	MSA	US	Manufacturing	Dollar	$977 million
10	Nissan	Japan	Motor Vehicle	Yen	¥9.4 trillion
11	Quadrem	US	Supply Chain Services	Dollar	$500 million
12	SAP	Germany	Technology	Euro	€12.5 billion
13	SAS	US	Technology	Dollar	$2.43 billion
14	Vodafone	UK	Telecommunications	Pound	£44.5 billion
15	Cargill	US	Financial Services	Dollar	$107.9 billion
16	US Bank MNE	US	Financial Services	Dollar	$86.6 billion
17	US Audit and Advisory MNE	US	Audit and Advisory	Dollar	$26.6 billion
18	French Manufacturing MNE	France	Manufacturing	Euro	€20.9 billion
19	US Software MNE	US	Technology	Dollar	$26.8 billion
20	US Technology MNE	US	Technology	Dollar	$40 billion

Source: Company Annual Reports

senior management team. Five companies participated in the study on condition that the name of the company not be mentioned in the results. Tab. 1 summarizes a list of companies that participated in the study, their home country, industry and global revenue.

Unfortunately, none of the multinational companies reported their revenues at country level, which would have allowed us to indicate the market share of these companies in Africa. However, our sample represents leading companies within the global markets. For example, Accenture and IBM are the top two technology consulting firms in the world. BMW, Mercedes and Nissan are major players in the motor vehicle sector. Microsoft, SAP and SAS are market leaders in the global software industry. The sample is thus relatively large given the finite number of multinationals operating in South Africa and the focus on market leaders. To further ensure consistency, a mixed method approach was followed to consolidate qualitative feedback with the quantitative survey data. The research instrument was standardized and consistent for each respondent. Issues around reliability and validity were addressed by conducting face-to-face interviews which ensured that none of the questions asked had any form of ambiguity. Also the questions asked in this questionnaire touched on long term strategic positions of the different multinationals and thus none of the discussion issues could be influenced by the foremost events that are currently taking place. Therefore, there was no major concern that the reliability of this research could be compromised.

Part of the questionnaire examined the criteria influencing the location of RHQs and this used a Likert scale as a basis to determine the relative importance of each of the factors and it required a more involved statistical analysis before the data could be used and correctly interpreted. This is because the survey data captured is of an ordinal nature and cannot necessarily be assumed to be linearly correlated with the underlying attitudes of the Likert scale of the survey i.e. one cannot directly, accurately interpret responses from the point scale without some mathematical means of normalizing or rescaling it first. Stacey (2005) has developed a distribution-fitting approach which allows for the conversion of such data into a more representative form which yields results of greater accuracy and validity. This allowed for each factor to be interpreted and ranked. The approach calculates item means and standard deviations of the sample, rather than respondent level data. Respondent level data can however be generated from estimated threshold values and the estimated means and standard deviations. In the case of normal underlying distributions, the rescaled values can be calculated as the mean or expected value of the truncated normal distribution between the two threshold values. This is given in the formula:

$$Y_{k,j} = \frac{\int_{\tau_{k-1}}^{\tau_k} x.e^{\frac{-\left(x-\mu\right)^2}{2\sigma^2}} dx}{\int_{\tau_{k-1}}^{\tau_k} e^{\frac{-\left(x-\mu\right)^2}{2\sigma^2}} dx} \qquad (1)$$

where $Y_{k,j}$ is equal to the rescaled value for the k^{th} ordinal response to the j^{th} survey item, and are the estimated mean and standard deviation of the normal distribution fitted to the responses to the j^{th} survey item (Stacey, 2005, p. 21).

When analyzing the results of the distribution-fitting analysis performed on the survey data, Stacey's (2005) statistical methodology imply that the following interpretations needed to be made to identify factors as *very important, important* and *less important.* If the mean for an investment factor response was appreciably greater than zero ($\mu >> 0$ as determined by the hypothesis test) then that factor is statistically significantly more important than the overall average importance of all the factors and can hence be interpreted as being *very important* relative to other factors. If the mean for an investment factor response was very close to zero then it can be interpreted as being *important* (the average) relative to other factors. If the mean for an investment factor response was appreciably less than zero then it can be interpreted as being *less important* relative to other factors.

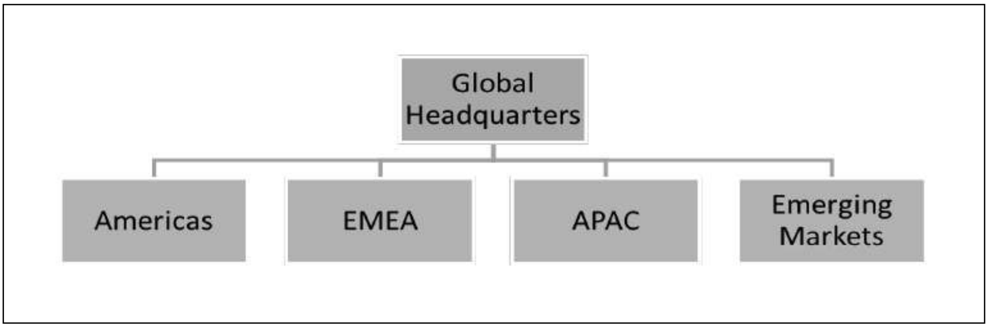
3. Results and Discussion

3.1 Regional Organization of MNEs

Respondents were asked to indicate how their companies split the global market into different regions. As reflected in Fig. 1, most multinational companies are broken down into three main regions, namely, Europe, Middle East and Africa (EMEA); Americas; and Asia Pacific (APAC).

A slight deviation from the above regionalization is where the multinationals have split the countries into Europe, Africa and Latin America (EALA), North America (NA) and Asia-Pacific (APAC). Another deviation is where a number of multinationals have split the region of Americas into two regions, namely, North America and South America. In addition to the three main regions, a number of multinationals have also grouped countries into a category called ‘*Emerging/Growth Markets*’. These are countries identified as future drivers of the multinational’s growth. To further simplify management, some multinationals take the regionalization of countries to a lower level by introducing sub-regions. It is worth mentioning that a few multinationals still used the global headquarters to host the leads of the different regions as opposed to having RHQs in one of the countries within the respective region.

Fig. 1: Common regional breakdown of multinationals



Notes: EMEA: Europe, Middle East and Africa, APAC: Americas; and Asia Pacific

Source: own

The respondents were also asked to indicate the region to which South Africa belongs and the host country of that region’s RHQs – see Tab. 2. Where multinationals had Africa as a sub-region, South Africa always served as the RHQs. When probed about the reason for hosting the RHQs in the respective countries, 30% of the respondents indicated that it was based on the revenue contributions of the countries in a specific region. With the exception of emerging markets, the country with the highest revenue contribution normally served as the host. This confirms results reported in Birkinshaw et al. (2006) that location tends to follow business activity overseas. The geographic location of a country was also mentioned as a reason on two occasions. The country that is central to the countries within the region got the preference. Two respondents touched on Dubai’s incentives as a reason for hosting the RHQ for Emerging Markets.

3.2 Importance of Location Factors

Based on the available literature, factors which were identified as variables which have been put forward as drivers of the RHQs location decision were constructed into a questionnaire. Senior executives from multinationals operating in South Africa were asked to indicate the importance of each factor as if they were making a location decision. In addition to this, the respondents were asked to rate South Africa as positive or negative in the respective factor. The results are presented in Tab. 3 and for each factor the ratings given by the respondents and the mean determined from the distribution-fitting analysis are shown (Stacey, 2005).

Tab. 2: Regional allocation of South Africa and RHQ host country

No.	MNE	Region or Sub-region where SA is allocated	RHQ host country
1	Accenture	SPAI	Spain
2	BMW	EMEA	Germany
3	Dell	Emerging markets	Dubai
4	Deloitte	EMEA	UK
5	GEA	Africa	South Africa
6	IBM	CEEMEA – Emerging markets	Dubai
7	Mercedes	EMEA	Germany
8	Microsoft	MEA	Turkey
9	MSA	Africa, Middle East and Latin America	South Africa
10	Nissan	Emerging markets	France
11	Quadrem	Africa	South Africa
12	SAP	Emerging markets	Spain
13	SAS	Africa	South Africa
14	Vodafone	EMEA	UK
15	Cargill	EMEA	Switzerland
16	US Bank MNE	EMEA	UK
17	US Audit and Advisory MNE	EMEA	UK
18	French Manufacturing MNE	MEA	Egypt (Relocating to SA)
19	US Software MNE	EMEA	UK
20	US Technology MNE	EMEA	UK

Source: own

The importance of the respective factors in our study is reflected in Fig. 2. The graph was plotted using the standardized mean of each factor calculated using Stacey's (2005) analysis method. As we move away from the center of the radar graph, the interpreted level of importance increases from less important to very important. In summary, six factors were interpreted as very important, seven factors were interpreted as average in importance and the remaining five factors were interpreted as less important – see Tab. 4.

From Tab. 3 the factor that was interpreted as being most important overall was the *availability of a skilled workforce*. Running RHQs requires highly skilled professionals. Even for companies that believe in the deployment of expatriates, there will be a demand for locals that have the correct set of skills. This is becoming more important as MNEs recognize the value of local knowledge assets and regional innovation relays as identified by Asakawa and Lehrer (2003). Multinationals are increasingly reconceptualized as a distributed and differentiated networks governed by cooperative systems (Ambos & Birkinshaw, 2010) and thus RHQs need to function as mobilizers of knowledge which requires appropriate levels of human and social capital.

However, only 20% of the respondents felt that South Africa featured positively in this dimension. The concern raised regarding South Africa is the small pool of professionals that have the necessary skills to occupy positions at the RHQs. As a result of this shortage, companies have to pay a premium to attract and

Tab. 3: Results of Stacey's distribution-fitting analysis as regards the importance of location factors for RHQs – Part 1

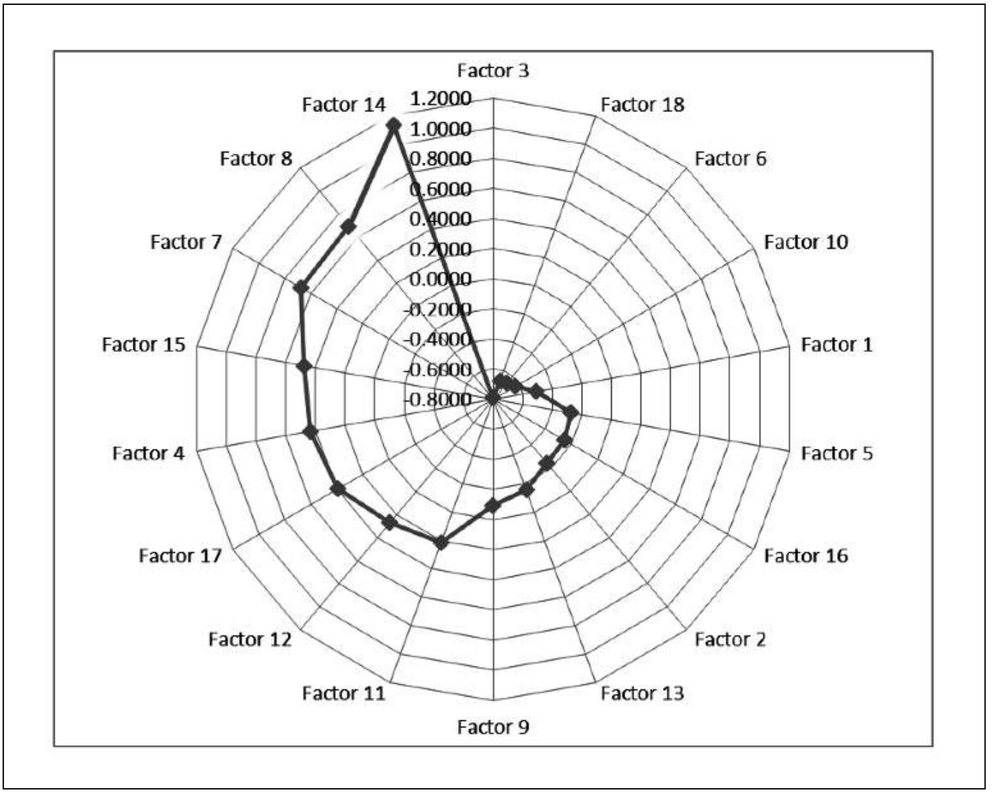
	Government Incentives	Low Operating Costs	Low Living Costs	Favorable Financial Environment	Effective Regional Links	Home Country Compatibility	Supportive Business Environment	Economic IT Infrastructure	Favorable Employment Relations
Observed									
Not Important	2	0	2	0	1	1	0	0	0
Less Important	4	5	7	0	4	8	0	1	4
Important	7	6	6	3	4	4	1	0	4
Very Important	4	4	5	8	8	7	7	7	7
Extremely Important	3	5	0	9	3	0	12	12	5
	20	20	20	20	20	20	20	20	20
Solver parameters									
μ	-0.3281	-0.1101	-0.5602	0.4431	-0.1381	-0.4511	0.6459	0.6592	0.0151
σ	0.7733	0.7758	0.6006	0.5383	0.7057	0.5799	0.4703	0.7045	0.7274
Expected									
Not Important	1.7667	1.0358	1.7601	0.0074	0.8016	1.1194	0.0002	0.0392	0.5637
Less Important	5.0914	3.9024	7.1709	0.4328	3.9596	6.3149	0.0619	0.6104	3.1075
Important	5.1499	4.8430	6.3171	2.4184	5.3146	6.7521	0.9214	1.9681	4.7329
Very Important	5.3157	6.1195	4.0549	8.4114	6.4801	4.9042	7.0555	5.9177	6.7984
Extremely Important	2.6762	4.0994	0.6969	8.7300	3.4441	0.9094	11.9610	11.4645	4.7975
$\chi 2$ contributions									
Not Important	0.0308	1.0358	0.0327	0.0074	0.0491	0.0127	0.0002	0.0392	0.5637
Less Important	0.2339	0.3087	0.0041	0.4328	0.0004	0.4497	0.0619	0.2486	0.2564
Important	0.6646	0.2764	0.0159	0.1399	0.3252	1.1217	0.0067	1.9681	0.1135
Very Important	0.3257	0.7341	0.2203	0.0201	0.3565	0.8956	0.0004	0.1979	0.0060
Extremely Important	0.0392	0.1979	0.6969	0.0084	0.0573	0.9094	0.0001	0.0250	0.0085
Sum (27.84175998)	**1.2942**	**2.5528**	**0.9699**	**0.6086**	**0.7884**	**3.3891**	**0.0694**	**2.4789**	**0.9481**
Solver thresholds	**Standardised thresholds**								
τ_1	-1.3728	τ_1	-1.7799						
τ_2	-0.6409	τ_2	-0.8889						
τ_3	-0.1314	τ_3	-0.2686						
τ_4	0.5292	τ_4	0.5355						
Standardised parameters									
μ	**-0.5081**	**-0.2427**	**-0.7907**	**0.4307**	**-0.2768**	**-0.6578**	**0.6776**	**0.6938**	**-0.0903**
σ	**0.9414**	**0.9444**	**0.7311**	**0.6553**	**0.8591**	**0.7059**	**0.5725**	**0.8576**	**0.8855**
t-value	-2.4137	-1.1493	-4.8365	2.9396	-1.4408	-4.1676	5.2936	3.6179	-0.4561

Tab. 3: Results of Stacey's distribution-fitting analysis as regards the importance of location factors for RHQs – Part 2

	Home and Host Country Political Relations	Government Attitude Towards Business	Rule of Law	Favorable Political Climate	Availability of Skilled Workforce	Size of Local Market	Access to Regional Markets	Government Cleanliness	Geographic Position
Observed									
Not Important	3	0	0	0	0	0	1	0	1
Less Important	4	1	2	3	1	1	1	0	8
Important	5	3	4	8	1	4	6	4	5
Very Important	7	10	6	4	4	5	10	7	4
Extremely Important	1	6	8	5	14	10	2	9	2
	20	20	20	20	20	20	20	20	20
Solver parameters									
μ	-0.4317	0.2655	0.3091	-0.0389	1.0185	0.4803	-0.1196	0.4110	-0.4628
σ	0.7707	0.5182	0.7630	0.6587	0.9671	0.7774	0.6151	0.6060	0.6865
Expected									
Not Important	2.2201	0.0157	0.2749	0.4287	0.1341	0.1713	0.4162	0.0324	1.8498
Less Important	5.6401	0.7871	1.8558	3.1793	0.7277	1.3208	3.5513	0.7933	6.1031
Important	5.1720	3.6353	3.5063	5.2760	1.4826	2.8216	5.8801	2.8818	5.7543
Very Important	4.8428	9.4535	6.6320	7.2311	3.7843	6.1873	7.2366	7.8383	4.8077
Extremely Important	2.1250	6.1085	7.7309	3.8848	13.8713	9.4990	2.9158	8.4541	1.4851
χ2 contributions									
Not Important	0.2740	0.0157	0.2749	0.4287	0.1341	0.1713	0.8189	0.0324	0.3904
Less Important	0.4769	0.0576	0.0112	0.0101	0.1018	0.0779	1.8329	0.7933	0.5896
Important	0.0057	0.1110	0.0695	1.4064	0.1571	0.4922	0.0024	0.4339	0.0989
Very Important	0.9609	0.0316	0.0602	1.4438	0.0123	0.2278	1.0552	0.0897	0.1357
Extremely Important	0.5956	0.0019	0.0094	0.3201	0.0012	0.0264	0.2876	0.0352	0.1786
Sum (27.84175998)	**2.3131**	**0.2178**	**0.4252**	**3.6091**	**0.4065**	**0.9956**	**3.9971**	**1.3845**	**1.3932**
Solver thresholds	**Standardised thresholds**								
τ_1									
τ_2									
τ_3									
τ_4									
Standardised parameters									
μ	**-0.6342**	**0.2145**	**0.2676**	**-0.1561**	**1.1311**	**0.4760**	**-0.2543**	**0.3916**	**-0.6721**
σ	**0.9382**	**0.6308**	**0.9288**	**0.8019**	**1.1773**	**0.9463**	**0.7488**	**0.7377**	**0.8358**
t-value	-3.0230	1.5204	1.2887	-0.8704	4.2969	2.2495	-1.5187	2.3743	-3.5962

Source: own

Fig. 2: Radar graph reflecting importance of location factors



Source: own

retain talent and this can contribute to higher operating costs. Some executives pointed out that this shortage of skills also contributes to a high attrition rate as professionals change jobs in search for the highest paying organization. Another negative consequence of this phenomenon is the small number of professionals that have gone through the ranks of the organization and therefore have a deep understanding of the business and its challenges.

The next factor identified in order of importance was the *economic IT infrastructure*. A RHQ must coordinate and control the activities of the MNE's affiliates within a particular region, acting as an effective channel of transmitting instructions and information. As a result MNEs have invested in expensive IT systems that ensure real time integration with systems throughout the world. For example, most manufacturing companies have sophisticated Supply Chain Management systems that must always be online to manage inventory and the ordering of components for assembly plants in the region. All these systems rely on the fact that the RHQs will always be online. In addition to being the communication touch point with global headquarters, many RHQs are also used to host the shared services centers used by the individual countries within the region. Even though most executives agree that South Africa's IT infrastructure is reliable, there is a concern about the price. One executive from a multinational bank indicated that they pay seven times more for bandwidth in South Africa as compared to Europe. Another executive from a global consulting firm indicated that telecommunication costs

Tab. 4: Summary of interpreted importance of location factors

Factor #	Factor Description	Interpreted Importance	Ranking
Factor 14	Availability of skilled workforce	Very Important	1
Factor 8	Economic IT infrastructure	Very Important	2
Factor 7	Supportive business environment	Very Important	3
Factor 15	Size of local market	Very Important	4
Factor 4	Favorable financial environment	Very Important	5
Factor 17	Government cleanliness	Very Important	6
Factor 12	Rule of law	Important	7
Factor 11	Government attitude towards business	Important	8
Factor 9	Favorable employment relations	Important	9
Factor 13	Favorable political climate	Important	10
Factor 2	Low operating costs	Important	11
Factor 16	Access to regional markets	Important	12
Factor 5	Effective regional links	Important	13
Factor 1	Favorable Government incentives	Less important	14
Factor 10	Political relations between home and host country	Less important	15
Factor 6	Compatibility with multinational's home country	Less important	16
Factor 18	Geographic position	Less important	17
Factor 3	Low living costs	Less important	18

Source: own

account for about 30% of their operating costs. Some respondents argued that some of the benefits derived from tax incentives in the Contact Centre and BPO businesses are eroded by the high telecommunications costs. Respondents argued that the country is still paying a significant price for the legislation that allowed Telkom to operate as a state-run monopoly.

A *supportive business environment* was interpreted as being *very important* and ranked third. This factor focuses on the availability of reliable suppliers, presence of key technology suppliers, and consistent physical infrastructure. This confirms the findings of Birkinshaw et al. (2006) that the more attractive the potential host county's perceived business climate, the greater the likelihood of MNE location. Next was the *size of the local market*. During the interviews, most of the respondents confirmed that countries that host regional headquarters often have the biggest economies in that region. Despite South Africa's relatively low economic growth, many respondents concur on the country's significance as the biggest economy on the African continent. One of the executives indicated that South Africa is amongst the Top 10% revenue contributors out of a total of 51 countries where his company has a presence. Many referred to the country's sound fiscal policies and the gradual emergence and growth of the black middle class as signs for potential future growth.

A *favorable financial environment* was interpreted as being very important overall and 65% of the respondents felt that South Africa featured positively. All the respondents highlighted the importance of stability and predictability of financial indicators. As part of the multinational's strategic management, RHQs are expected to compile business plans and revenue forecasts that are compiled in the currency of the multinational's home country. Currency fluctuations make long term planning very difficult. Respondents mentioned that RHQs often fund their working capital from loans received from global headquarters. Sudden changes in the currency can have a significant impact on the RHQs' ability to service the loan. In countries characterized by unstable and high inflation, forecasting and planning becomes even more difficult. Most respondents commended the inflation targeting policy adopted by the South African Reserve Bank. Such a framework makes it easy for companies to compile long term plans as they have a comfortable view of the threshold values that can be assigned to the inflation rate in their financial models.

The final factor that was rated as being very important was *government cleanliness*. Corruption in government has the potential to inhibit economic growth and scare off potential investors. Given that government is often one of the biggest spenders in an economy, respondents whose companies do business with government felt that corruption would make it impossible for them to win any government tenders as it is against their governance frameworks and value systems. They indicated that lack of corruption is especially important during the period of economic recession as spending by governments through stimulus packages helps to keep business afloat. The view on South Africa is that corruption has not reached crisis stage although it is becoming more problematic. Nonetheless compared to the rest of the continent it is still rated highly but respondents warn that if corruption is allowed to grow, it will impact service delivery and this can result in social unrest and political instability.

Of the six factors that were rated very important, four are related to the benefits of agglomeration, and three to a sound institutional framework. Distance did not feature. This pattern continues as we move into the category of seven factors that were rated of average importance with the first four emphasizing the institutional environment. The *rule of law* emerged seventh overall. Business cannot operate efficiently in an environment of lawlessness. Within the South African context, high levels of crime are a concern to a number of executives. Despite these challenges, executives from multinationals are comfortable with other aspects of the rule of law in South Africa. These include the enforcement of contracts and resolution of disputes. All believe that the judicial system in South Africa is independent and are comfortable with its impartiality and fairness when dealing with contractual matters and dispute resolution. The next factor was *government attitude towards business* where 90% of the respondents felt that South Africa featured positively. The expectation of the business community is that government must create an environment that is conducive for business to flourish. Many respondents viewed the South African government as being friendly towards business. They commended the existence of formal structures such as the National Economic Development and Labor Council (NEDLAC). Through this vehicle, government, labor, business and community organizations collaborate in finding solutions and negotiate on economic, labor and development issues facing the country. In addition to NEDLAC, the country's leadership also created multiple forums that allow government to engage the business community on matters affecting the country. However, some executives have warned about the negative impact of policy uncertainty. They pointed out the discussions around nationalization of mines and banks as examples of policy uncertainty that has a negative impact on South Africa hosting future RHQs.

In ninth place were *favorable employment relations*. There is a general view amongst the respondents that the employment relations in South Africa are on par with those implemented in developed countries such as Germany and France. However local rules are seen as stringent when compared to rules in other developing markets. Some executives have questioned the wisdom of having rules that are on par with the developed economies when South Africa is still trying to attract foreign investment. This is a very sensitive issue in South Africa and the debate is often clouded by emotions related to the apartheid legacy. There are those executives who strongly believe that the stringent rules are necessary to protect workers from the exploitation that was prevalent during the apartheid years. On the other side, there are those who feel that workers have too many rights that scare off foreign investors. One executive indicated that the current labor laws make it very difficult for employers to deal with non-performance. Many executives however commended the predictability of the South African labor framework. This is especially important for industries that must meet service level agreements with overseas markets as they can make contingency plans where necessary.

A *favorable political climate* emerged next in importance. One executive touched on the risk premium that a multinational company can suffer by doing business in a politically unstable country. This risk emanates from the fact that most multinationals have insurance policies covering their employees and assets. By doing business in an unstable country, the organization's risk profile can be negatively impacted and the company can be expected to pay higher insurance premiums to compensate for the risk exposure. He indicated that the matter is taken so seriously that high risk countries require special approval before his organization can send any of its employees to work in the respective country. There is an acknowledgement that not all stable countries have a strong democracy and free political activity. There are a number of well-known authoritarian governments that are running very stable countries and have created an environment favorable to business. Multinationals seem to be satisfied to invest where there is political stability even if that stability is associated with limited political activity and freedom of expression.

Low operating costs was interpreted as being of average importance overall. A number of respondents indicated that multinationals have responded to this issue by introducing operating models that allow them to tap the cheapest labor irrespective of location. For example, many multinationals have established global delivery centers that service their RHQs throughout the world. The global delivery centers create an opportunity for a RHQ's finance function, for example, to be performed in India where the cost for accountants is cheaper. There is however an acknowledgement that these global delivery centers come with their own challenges such as time zone differences and language barriers. Therefore countries that have a pool of skilled and affordable local workers still have an advantage. Closely linked to the concept of global delivery networks is the emergence of new technologies that deal with the problem of high labor costs. An example of these technologies is the concept of cloud computing which allows companies to host the entire IT infrastructure in a central data center where the required skills are available in abundance. Local RHQs are then charged based on the use of the central infrastructure but do not have to worry about the skills required for ongoing maintenance or enhancements.

The last two factors that emerge as being of average importance although at the bottom of this list are related to distance namely *access to regional markets* and *effective regional links*. With many of the developed economies still emerging out of recessions or dealing with a major debt crisis, respondents felt that untapped markets within the continent provide great opportunities for growth. Regional integration and the formation of regional economic blocks such as the Southern African Development Community (SADC) are viewed as strong building blocks towards regional integration and effective trade across the member countries. South Africa's leading role within the SADC region is viewed as a position of strength and further entrenches the country's status as the gateway to Africa. Even though the regionalization of the continent has been in existence for a number of years, many respondents felt that a lot of work still needs to be done. The movements of goods and labor within the SADC region for example still has a long way to go before it can reach the levels experienced in integrated regional communities such as the EU. The road and rail infrastructure within the continent still requires serious investment as it impedes the simple and cost effective movement of goods. Even though African countries have worked towards regional integration, some of the respondents referred to a peculiar alignment to historical colonial divisions. Former British, French or Portuguese colonies were much more open to doing business with their former colonial masters. One of the executives from a technology consulting firm referred to an example where their client in Angola prefers getting services from their office in Portugal rather than from South Africa.

Five factors come out as being less important starting with *favorable government incentives*. Only 30% of the respondents viewed South Africa as featuring positively on this factor. Despite its overall rating of less important, this factor featured highly with multinationals in the manufacturing sector. In line with the government's drive to boost this sector, a number of incentives were critical in driving the location decision in South Africa. The most prevalent of these incentives is the

Motor Industry Development Program (MIDP) applicable in the motor vehicle manufacturing sector. The program was designed to help the industry adjust and increase its global competitiveness in the post-apartheid trade policy environment. The savings derived from the program also help offset the costs associated with South Africa's geographic location which is often far from the export markets. In addition to the MIDP, South Africa is also made attractive by the fact that it is a beneficiary of the Africa Growth and Opportunity Act (AGOA) introduced by the USA government in 2000. AGOA makes provision for trade preferences and duty free entry to the USA of certain goods from Sub-Saharan Africa. A number of manufacturers are taking advantage of this incentive and use South Africa as an export base to the US. For example, BMW South Africa only sells 30% of their vehicles to the local market and the rest are exported with the US being the biggest export destination.

Even though the above incentives can be important, many of the senior executives expressed doubts about their sustained value. They argued that many countries have introduced incentives to a point that it is difficult for any country to use incentives as a differentiator. They also raised questions about the sustainability of government incentives. To highlight doubts on the sustainability of tax incentives, one executive referred to tax incentives used by Ireland to attract multinational companies to its shores. Many commentators argue that it is a matter of time before Ireland is forced to revise its generous tax incentives as a measure to address their current debt crisis. The question in everyone's mind is whether all the multinationals that relocated to Ireland will vote with their feet and seek a new location that provides better incentives.

The next three factors are related to distance. *Political relations between home and host country* and *compatibility with multinational's home country* rank only 15th and 16th. Hostility between countries is not good for business but there was a general view amongst the respondents that good relations do not necessarily translate into good business. Also by their very nature, multinationals expect to operate in very diverse countries that do not resemble their home country and are glued together by the organizational culture which transcends country differences.

Geographic position appears in second last position. Most executives felt that globalization and the emergence of new technologies have made this factor less significant to the RHQs location discussion. The emergence of technologies such as video conferencing and telepresence make it possible for people to simulate a virtual boardroom discussion. In addition multinational companies have also invested substantially in closely integrated IT systems. These systems allow executives at the global headquarters to have real time access to the business activities in each RHQ. In addition to cost savings, the implementation of these technologies is in line with environmental and green initiatives. Corporate companies are able to reduce their carbon footprint by discouraging unnecessary flights to the RHQs. Even though the implementation of telecommunication technologies has made this factor less important, some executives indicated that bandwidth costs and network penetration makes it difficult for Africa to exploit these technologies to a maximum. Also executives whose companies focus on exporting goods to places such as Europe, the USA and Asia, touched on the negative impact of high shipping costs from their South African bases because of distance.

The least important factor was *low living costs*. The living costs in a RHQs host country seemed relevant only to countries that have a large expatriate contingent deployed to run the office. Given that most multinationals operating in South Africa have a limited dependence on expatriates, it is not surprising that this factor has the lowest mean of all 18 factors.

Conclusion

Multinationals are aiming to strike a balance between local responsiveness and global integration. We find that the dominant criteria used by MNEs to choose their locations for RHQs in Africa are linked to the advantages of agglomeration and the accompanying economies of scale, and a sound institutional framework which provides a predictable business climate. In emerging markets which often suffer from institutional voids and thus higher country risk profiles where the rules of the game are uncertain, MNEs choose to locate in the environment which is most familiar to its home rules and use it as a springboard to do business in more 'hostile' milieus. The new growth opportunities are almost invariably located in countries with less attractive institutional setups and MNEs attempt to mitigate that risk by choosing the most favorable rules within that region. Distance is shown to be less important in an era of globalization and technological innovation which allows distance to be navigated. This is not to say that geography does not matter as agglomeration effects demonstrate that whilst distance is less important, location still matters because of the benefits of increasing returns as a result of agglomeration.

The implications for managers looking to do business in Africa is to recognize that this is continent still consolidating its transition to a more familiar business environment. Africa is opening up to international business on an unprecedented scale. In many respects it represents a frontier to global capital which is seeking out new, growing and emerging markets. Whilst Africa is still very much on the periphery of world markets and remains a tiny player on the international stage, it is beginning to actively court foreign companies and has done so by addressing the institutional business environment. Understanding the environment of business in Africa will allow commercial entities to make informed decisions about the risks and prospects of the African landscape. Given the unique business environment it will be a difficult region to manage successfully from centralized headquarters and thus using RHQs with local knowledge has real advantages. South Africa is a useful launching pad as an entry point to the continent because of its sound infrastructure and institutions, its relatively large and diversified economy and its more recognizable landscape for MNEs from the developed world. Furthermore, South African companies have been at the forefront of the recent push by corporations into the continent and thus have built up solid networks and expertise in this regard. The research suggests that other developing and emerging regions may find similar results with MNEs choosing to establish RHQs so as to gain knowhow into local conditions especially where the institutional environment is unpredictable. MNEs may therefore choose to locate their RHQs in countries within these regions which have sounder institutional milieus as part of their risk mitigation strategies of operating in these regions.

As discussed, South Africa emerges very favorably as a suitable host for RHQs for multinationals wishing to do business in Africa. However, we need to note some limitations of this paper which present themselves as fruitful areas for further research. First, the study is conducted at a point in time on a continent which is seeing dramatic changes and extraordinary economic growth rates. South Africa's economic dominance in Africa is declining and that may open up new host possibilities. Over the last decade the rapid growth in Dubai saw it become a potential competitor to host RHQs for the Africa and Middle East region. However this has been short lived and a number of multinationals have recently shifted back to South Africa. But it is worth noting the dynamics of the broad region make the final outcome uncertain. Second, our relatively small sample makes it impossible to statistically identify industry specific differences. Additional areas for research include an analysis of whether the same amount of value and decision-making autonomy is decentralized to RHQs in different regions. Do São Paulo, Johannesburg and Singapore elicit the same amount of value decentralization for multinationals hosting their Latin American, African and Asian operations there? Lastly, we have indicated that a number of multinational companies have introduced what they call 'Emerging Markets' as an additional region. It would be useful to conduct a study to determine the criteria used by multinationals to locate RHQs for the 'Emerging Markets' group of countries or whether these are going to remain subservient to geographic boundaries.

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Abstract

THE STRATEGIC LOCATION OF REGIONAL HEADQUARTERS FOR MULTINATIONALS IN AFRICA: SOUTH AFRICA AS A HOST COUNTRY

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Multinationals enterprises are aiming to strike a balance between local responsiveness and global integration. The establishment of regional offices allows multinational companies to have a local insight of the market, competition landscape and customer preferences. With such detailed insight, multinational companies are then able to formulate effective and responsive regional strategies. The importance and value of regional headquarters in the academic literature has generally focused on them in industrialized countries. The result is that we do not yet fully possess an overall framework for understanding how value and decisions are devolved, how location decisions are made and how their structures and strategies are evolving to accommodate the growth in emerging markets. The study examines the dominant criteria used by multinational enterprises to choose their locations for regional headquarters in Africa by examining South Africa as a host country for the continent. We find that the main criteria are linked to the advantages of agglomeration and the accompanying economies of scale, and a sound institutional framework which provides a predictable economic climate. In emerging markets which often suffer from institutional voids and thus higher country risk profiles, multinationals choose to locate in the environment which is most familiar to its home rules and use it as a springboard to do business in more 'hostile' milieus. The implications for managers looking to do business in Africa is to recognize that this is a continent still consolidating its transition to a sounder institutional environment. Given the unique business environment it will be a difficult region to manage successfully from centralized headquarters and thus using regional headquarters with local knowledge has real advantages.

Key Words: *Foreign direct investment, multinational enterprise, Africa; regional headquarters, MNE-host country relations.*

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