

African multinationals bring home much more than profits

By Danson Kimani and Geofry Areneke

20 Nov 2019

Often when companies take their operations abroad, a practice referred to as internationalisation, the main intention of the owners or managers is to increase corporate earnings. They achieve this by reaching new foreign customers. They may also get closer to sources of raw materials and thus reduce costs.



© via <u>123RF</u>

Companies can also internationalise without having a physical presence overseas or exporting their products abroad. They can internationalise by having their shares traded in <u>overseas stock exchanges</u>. Doing so can enable a company to access new sources of international funding. This can help overcome a lack of relatively cheap capital at home.

Companies can also appoint <u>foreign directors</u> to their boards. This can augment the skills base of a company's board of directors and other senior managers. Foreign directors can also represent those firms overseas and may enhance the firms' international reputation.

Multinational companies have been much studied. However, the focus of these studies has been mostly restricted to subsidiaries of foreign companies operating in emerging economies.

This has left a huge gap. Hardly any research has been done on the impact of multinational companies that are born and bred on African soil. In a recent <u>study</u>, we provide new insights on the impact African multinationals have on their home countries.

Our study

We used a sample size of 80 multinational companies listed on the Nigerian Stock Exchange (NSX) during the period 2011-2015. Coincidentally, the period of study was also preceded by the introduction of the <u>Code of Corporate</u> <u>Governance for Public Companies</u> in Nigeria issued by the Securities and Exchange Commission in 2011.

This allowed us to assess how the sampled companies reconciled the demands of improved corporate governance regulations in Nigeria with the corporate governance demands of overseas jurisdictions where they also have operations.

Our sample comprised companies operating in a wide range of sectors. These included financial services, consumer goods, agriculture, consumer services, health care, natural resources, and information, communications and technology.

Of the 80 companies in our sample, approximately 19% were listed in Nigeria and elsewhere. Most of these cross-listed companies were listed on the London Stock Exchange (LSE) and Euronext Paris exchanges (26.5% each) as well as the NSX. Another 20% were also listed on the Johannesburg Stock Exchange. Others were also listed on the New York Stock Exchange, the Ghana Stock Exchange, the SIX Swiss Exchange, and the Frankfurt Stock Exchange.

The findings

Our <u>study</u> found that African multinational companies had higher standards of corporate governance than other local firms. They served as yardsticks for good corporate governance practices.

Internationalisation also helped African firms to disengage from home country shortcomings. These include corruption, tribalism and elitism. Elitism and tribalism, in this instance, refer to the appointment of directors on the basis of friendship or cronyism. These factors pose serious threats to the running and governance of companies in many African countries, including Nigeria.

These shortcomings, together with a widespread culture of patronage, have been cited as some of the biggest <u>hindrances</u> to Africa's economic development.

Conclusion and implications

There are two important implications of our study for policy makers and stakeholders of companies based in Africa and other emerging economies.

Firstly, African based companies can enhance their reputation globally by listing their shares on overseas stock exchanges or appointing foreign directors onto their boards. Reputation is particularly important when a company seeks to enter foreign markets.

Lastly, multinational companies diffuse international best practices on corporate governance into their home markets. So, internationalisation can assist African companies to lessen the impact of local contextual challenges on their business and corporate governance practices. These include corruption, crony capitalism, and patronage and nepotism in corporate appointments.

ABOUT THE AUTHOR

Danson Kimani, Lecturer in Accounting; CAGD coordinator at The Centre for Accountability and Global Development (CAGD), University of Essex; and Geofry Areneke, Senior lecturer in Accounting and Finance, Manchester Metropolitan University.

For more, visit: https://www.bizcommunity.com