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THE IMPACTS OF FOREIGN DIRECT INVESTMENT (FDI) ON MANAGEMENT PRACTICES (HRM) IN SUDANESE LOCAL BANKS

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Abstracts: **The study deals with foreign direct investment (FDI) as having an important role in the development and growth of local industry. This study investigates the impacts of FDI on the Sudan as the host in terms of its effects on management practices. The study takes its sample from foreign banks and local banks in Sudan, using managerial measurements (human resources management practices). The study covers (127) individuals (senior managers) in (8) banks representing the study sample, which is drawn using stratified stage cluster sampling. The data was analyzed using OLS and SPSS. The most important findings are that: foreign banks have positive effects on local banks management practices (HRM), The study recommends the necessity for attracting more FDI to enhance the overall productivity of the country through triggering competition and achieving spillovers. Further, government should continue providing incentives to encourage inward FDI, in order to bring additional capital, technology and making the local market accessible to foreign investments, especially for banking services sector, because Sudan is full of potentials and promising investment opportunities.**

Keywords: **Foreign direct investment (FDI), management practices, foreign banks, local banks.**

1. INTRODUCTION

Foreign direct investment (FDI) is defined by (UNCTAD 2009) World Investment Report as ("a cross-border investment in which a resident in one economy (the direct investor) acquires a lasting interest in an enterprise in another economy (the direct investment enterprise). The lasting interest implies a long-term relationship between the direct investor and the direct investment enterprise and usually gives the direct investor an effective voice, or the potential for an effective voice, in the management of the direct investment enterprise. By convention, a direct investment is established when the direct investor has acquired 10 percent or more of the ordinary shares or voting power of an enterprise abroad"). FDI has come to play a major role in the globalization of business. Reacting to changes in technology, growing liberalization of the national regulatory framework governing investment and changes in capital markets, profound changes have occurred in the size, scope and methods of FDI (Buckley et al2007 pp231). This study explores the impact of FDI on management practices in the banking sector, in terms of human resources management. Such FDI related studies have important policy implications for governments worldwide, which directed considerable resources on incentive programs aimed at attracting FDI in the hope of reaping the benefits of globalization and maximizing spill over effects.

2. PROBLEM STATEMENT, OBJECTIVE AND SIGNIFICANCE OF THE STUDY

This research focuses on whether there are impacts of foreign direct investment (FDI) on management practices of local firms, with special reference to the effects of HRM applications of foreign banks on local banks. The literature review is based on a range of frequently cited scholarly articles covering managerial practices. In fact the issue of FDI and its impact on management practices was, and still is a subject of considerable debate among economists, management theorists and practitioners (Yeaple et al 2013pp237). Therefore, Significance of the present research emerges from the fact that such an issue is rarely explored outside western context, Sudan is no exception. Hence, this research is intended to come up with some implications and recommendations that help policy makers, state and local governments to direct their foreign investment policies to generate successful outcome. The main objective of the study is to investigate the extent to which local banks have benefited from the existence of foreign banks in HRM practices.

3. LITERATURE REVIEW

3.1 Definition of Foreign Direct Investment:

According to the (OECD 2014) benchmark definition, FDI "(reflects the objective of obtaining a lasting interest by a resident entity in one economy in an entity resident in an economy other than that of the investor") . The lasting interest implies the existence of a long -term relationship between the direct investor and the enterprise and a significant degree of influence on the management of the enterprise (World Bank 2013). The UNCTAD World Investment Report (2011) defines FDI as "an investment involving a long-term relationship and reflecting a lasting interest and control by a resident entity in one economy in an enterprise resident in an economy other than that of the foreign direct investor").

3.2 FDI and Human Resources Management:

Human Resources Management, (HRM) can be seen as part of the overall strategy of the firm (Fosfuri et al 2001pp341). In practice, FDIs are more likely to use a hybrid strategy and, as (Branstetter 2006) puts it, a company that has subsidiaries in many foreign countries may adopt an ethnocentric strategy for some of them and a polycentric or even a global one for others. Furthermore, typology treats management practices in terms of an overall orientation, which may overlook an FDI's internal differentiation, (Amin et al 2014). According to this view, a company is an organization composed of many differentiated practices. Some of them may be more sensitive to pressures of local adaptation, while others may be more prone to internal consistency. Similarly, in the same subsidiary, some management practices may closely follow the parent company ones, while others may more resemble those of the host country. In addition, there can be other practices which may follow a global standard, (Stiles 2012pp108). One of the questions in the FDI literature, is the extent to which subsidiaries act and behave as local firms – local isomorphism – as opposed to the extent to which their practices resemble those of the parent company or some other global standard – internal consistency (Ayesha 2014).More specifically, HRM practices in FDI *("are shaped by the interplay of opposing pressures for internal consistency and for isomorphism with the local institution environment")* (Amit 2011 pp95). Recent research has focused on FDI subsidiaries and HRM has already shed light on some of the factors that affect FDIs' choices regarding localization vs internal consistency of HR practices (Philip et al 2015pp176). Nevertheless, some research findings revealed that companies in different countries differ with respect to their HRM practices and policies (ibid). It has also been noted that transferring HR policies and practices to different countries can be quite problematic (Aitken et al 1999). Some of the major obstacles are closely related to the host country's cultural and institutional environment. Although the dominance of American management theory has led to the belief in universal management practices that can be applied anywhere, research has shown that managerial attitudes, values and behaviors differ across national cultures. There is no single best way to manage an organization, since – among other factors – differences in national cultures sometimes require differences in management practices, (Branstetter 2006). Several management writers have adopted a cultural perspective on organizations (Diaz-Fernandez et al 2015). Central to this approach is that societies/countries are different from each other and that this distinctiveness is reflected in the way that organizations are managed. Management and organization cannot be isolated from their particular cultural environment. HRM practices are based on cultural beliefs that reflect the basic assumptions and values of the national culture in which organizations are embedded (Muhammad et al 2012). This leads to the question of what happens when FDIs want to transfer some of their HRM practices overseas, especially in cases when the assumptions that underlie such practices do not fit with the cultures of the recipient host-countries,(opcit). Failure to adapt HRM practices to a host-country's culture can lead to negative consequences that inhibit a subsidiary's performance. Existing research provides evidence that FDIs adapt to a certain degree to national cultures in which they operate (Bryson 2005). According to OECD (2014) ("*subsidiaries that are managed consistently with national cultural expectations have perform better compared to subsidiaries that are managed*

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otherwise"). People's behavior can also be partly explained in terms of social structures that act as a guide or constraints on individuals, through their roles and positions within institutions and the functions of these institutions within the entire social system (Albrecht et al 2015). The basic argument is that social institutions influence company practices in a systematic way, resulting in structures and processes that reflect national patterns, (ibid). Empirical research has examined how institutional systems shape organizations, as a function of their location in the environment, their size, structural position etc. (opcit). With regard to the transfer of management practices to host countries, the extent to which firms are able to transfer country of origin practices depends on host country national business systems and their institutions, which can either facilitate or inhibit the transfer, (Forth 2007). In a permissive institutional framework with few formal institutions, FDIs are less constrained in introducing country of origin practices. In contrast, where institutions are cohesive, integrated and have generated a distinctive business system, it is more likely that FDIs will have to adapt to the local practice, (Gamble2003). Host country legal regulations represent a strong environmental pressure on FDI subsidiaries (Ngo et al 1998) and the legal environment in which the FDI subsidiary is embedded can constrain the transfer of HRM practices from its parent , (ibid).

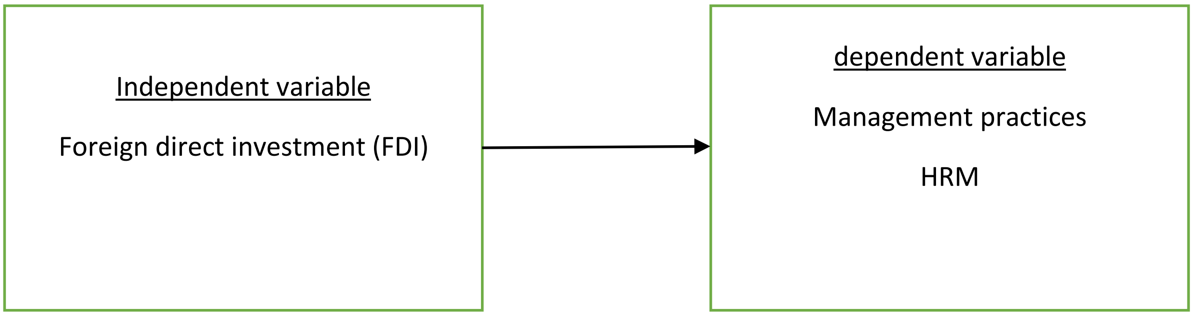
4. METHODOLOGY

4.1 Conceptual Framework:

Instituted on the literature review, the integrative framework of the study is based on the Dunning's OLI framework (Dunning 1999) who states that firms decide to invest abroad if:

- They have market power given by ownership of firm-specific advantages (O)
- They have a location advantage in locating activities in a foreign country (L)
- They have an advantage from internalizing their foreign activities in fully owned subsidiaries, rather than carrying them out through channels in the market (I)

As explained by the development of the FDI theory, MNCs need to possess some compensating firm-specific advantages (FSAs), in order to compete effectively with local players in the host economy, who generally have better access to and knowledge of, the host market (ibid). Sohail et al (2002) establish that while the gender of the bank officials does not affect efficiency in ICT, factors such as age, educational qualification, computer literacy and type of ICT gadgets, are significant in influencing banks intensity of ICT usage. Also ICT is found to impact positively the speed of banking service delivery, as well as productivity and profitability. Human capital substantial tools in attaining the desired growth and competitiveness of today's businesses, it may also constitute a major portion of an organization's capital investment, Nicholas et al (2012 pp234). In all over the world banking performance has been evaluated at different times of the impact of different variables on bank performance, most of the studies have been conducted in developed countries but in developing countries rarely conducted, this creates a huge space for the research in foreign direct investment and banking sector in developing and underdeveloped economies (Jamshed 2006 pp128). Figure (1) demonstrates the model of this study. The study investigates whether there are impacts of foreign direct investment (FDI) on management practices of local firms, with special reference to the effects of HRM applications of foreign banks on local banks.



Source: Prepared by the researcher.

Figure 1 . A Model reflecting the relationship between the study variables

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In this paper, the hypothesis is formulated to test if the dependent variable (FDI) is significantly related to the independent variable (management practices-HRM) for the banks sector in Sudan. Based on the literature review and the information in the deductive method of data analysis, the following hypotheses were raised and tested using specific statistical tests.

4.2 Measurement of Human Resources Management (HRM):

HRM practices are based on cultural beliefs that reflect the basic assumptions and values of the national culture in which organizations are embedded (Suriyamurthi2013). This leads to the question of what happens when FDIs transfer some of their HRM practices overseas, especially in cases when the assumptions that underlie such practices do not fit with the cultures of the recipient host-countries (Bruno2013). Failure to adapt HRM practices to a host-country's culture can lead to negative consequences that inhibit a subsidiary's performance, (opcit). Existing research provides evidence that FDIs adapt to a certain degree to national cultures in which they operate, Mubashar et al (2011). In addition, subsidiaries that are managed consistently with national cultural expectations have been found to perform better compared to subsidiaries that are managed otherwise (Stiles et al 2012) However, cultural values are not the only determinant of individual behavior that subsequently affects management practices. People's behavior can also be partly explained in terms of social structures that act as a guide or constraint on individuals, through their roles and positions within institutions and the functions of these institutions within the entire social system ,(ibid).Tsung et al (2010) focused on the impact of social forces on organizational structure and behavior. The basic argument is that social institutions influence company practices in a systematic way, resulting in structures and processes that reflect national patterns(Xiaolan 2014). In executing measurement of human resources practices the study will follow, (George2012) who measures the human resources practices such as (training ,incentives , employee performance evaluation.. etc.) with organizational management practices .

4.3 The types of Research Followed:

This research is based on causal relationship between the variables, the methodology followed two steps in analysis: **Firstly:** Obtaining data via questionnaire (quantitative method) on the basis of Human Resources Management (HRM) respectively. **Secondly:** Employing a linear regression, estimates the relationship between FDI and management practices in commercial banks in Sudan by testing the relationship between FDI and management practices in commercial banks in terms of HRM practices. This study uses the self- administered questionnaire based on stratified sample obtained from population.

4.4 Sampling Procedures.

Primary sampling units are the commercial banks headquarters with two eligibility criteria; Banks with five or more years operating in Sudan and Banks' headquarters in Khartoum state. Stratification Variable; Types of banks: Domestic Banks and Foreign Banks (Banks with majority of their shareholders being Sudanese). A total of (127) self-administered questionnaires were distributed to a sample selected via stratified sampling technique (srtatification formula) from the total population of (391) managers in local and foreign banks headquarters located in Khartoum state .This sample consists of bankers working in local and foreign banks. A total of 80 questionnaires were returned to researcher

$$n = \frac{Z_{\alpha/2}{}^{2} \; P\,(1 - P)}{\varepsilon^{2}} * \mathrm{deff}_{st}$$

Where:

$Z_{\alpha/2}$ = The confidence coefficient (for 95% confidence$Z_{\alpha/2}$ =1.96)

P = Proportion of banks with an attribute of interest. (Taken as P = 0.5 for planning purpose)

ϵ= The error margin.

deff_{st} = The stratified cluster sampling design (deff_{st} = 1.5).

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5. RESULTS AND IMPLICATIONS

5.1 Reliability and Validity Tests:

Table (1) The statistical reliability and validity of the pre-test sample

Questionnaire	Reliability	Validity
Senior Managers	0.80	0.89
Total	0.80	0.89

Source: Prepared by the researcher.

Table no. (1), shows that reliability and validity coefficients for each questionnaire's statement, and for overall questionnaire, are greater than (50%), and some of them are near to one. This indicates the high validity and reliability of the answers .Thus, we can conclude that, the study questionnaire is valid and reliable, and that will give correct and acceptable statistical analysis.

H0: The human resources management practices in foreign banks do not affect its application in local banks.

H1: The human resources management practices in foreign banks affect its application in local banks.

Table (2), Simple linear regression for the relationship between human resources management of foreign bank and human resources management of local bank.

	Coefficient of regression	t-test	P-value	Explanation
$\hat{B}_0$	**3.284**	**4.425**	**0.000**	***Significant***
$\hat{B}_1$	**0.541**	**9.352**	**0.000**	***Significant***
Correlation coefficient (R)	**0.71**			
Coefficient of Determination (R^2)	**0.50**			
F-test	**18.221**	***The model Significant***		
ŷ= 3.284+0.541x				

Source: Prepared by the researcher.

There is a positive relationship between human resources management of foreign banks and human resources management of local banks with value (0.71). The explanation for this result is that, the foreign banks have positively affected the local banks with respect to human resources. The foreign banks are very much concerned about human capital development, thus spend a lot of resources to build the capacity of their human capital. The local banks try to do the same thing to raise the capacity of their employees.

The coefficient of determination (R^2) equal to(0.50), which implies50 percent of change in human resources management of local banks are explained by the change in human resources management of foreign banks .This can be attributed to the fact that foreign banks have better exposure to advance human resources management practices worldwide , hence they can easily know about it and adopt. The regression model is significant the p-value of F-test (0.000) is less than significant level (0.05).which indicates that the human resources management practices in local banks are influenced by the human resources practices in foreign banks. 3.284: the mean of the human resources management of local banks, when the human resources management of foreign banks equal zero. 0.541: Means when the human resources management of foreign banks increase one unit, the human resources management of local banks increases by 54%. Accordingly the null hypotheses should be rejected and the alternate hypotheses should be accepted.

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6. CONCLUSIONS

The impact of FDI on management practices has long been an issue of interest for academics and policy-makers. It is widely accepted that FDI plays a critical role in economic growth and development, particularly in a large size country with rich resources like Sudan, which looks for injection of foreign capital. MNCs carrying funds, resources and technologies become major and important influence on shaping the host country economy. The study provides a literature review of impact of FDI on host country. Data from banking industry in Sudan have been collected and analyzed to provide a good overview of FDI in Sudan . The research contributes to the existing literature by empirically testing the impact of FDI on managerial practices in local firms in the context of a developing country like Sudan . In which not many studies have been conducted in this field. First, results from this study attest to the existence and significance of the long claimed intangible benefits from FDI: managerial knowledge and -technology spillover. Second, FDI can serve as a vehicle that facilitates the transfer of advanced managerial knowledge from foreign to local firms, either unintentionally through demonstration and movement of trained staff or intentionally through transfer of advanced management practices to business partners in the banking industry and services sector in general.

7. LIMITATIONS AND RECOMMENDATIONS

7.1 Limitations of the Research:

- The time constrain of interview accessibility, the availability of interviewees for a significant time constituted difficulties and constrains to the researcher.

- The sample deals only with the commercial banks operating in Sudan and located in Khartoum State before 2010, so all the respondents to the questionnaire are only from one sub-sector and future study could test respondents who belong to different sub-sectors and foreign investments that entered the country after 2005 or more.

7.2 Recommendations for future Research:

- Future research should broaden the sample covers different sectors such as the agricultural, mining, petroleum or education sectors. Also it is recommended to turn this research into a basic research.

- A comparative study taking two or more sectors or sub-sectors could also be considered.

- Further research could take other possible factors which might explain causes and determinants of spillovers other than management practices, such as host country conditions, industrial market structure, and overall economic size.

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