DIMENSIONS OF EXPANSION BY U.S. FIRMS TO AFRICA: WEALTH EFFECTS, MODE SELECTION, AND FIRM SPECIFIC FACTORS

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ABSTRACT

Literature on multinationalism, even that which focuses on economic development and incentives for foreign direct investment, largely ignores the African continent despite its market of over 700 million inhabitants and its unique challenges for foreign firms. However, the African continent provides an important arena for examining the effects of infrastructure, culture, wealth, and political differentials across countries and the effects of these variables on U.S. multinational corporation's expansion decisions. In this paper we examine the U.S. stock market reaction to announcements of American firms entering African markets through both FDI and Non-FDI modes. Finally, we investigate the accounting performance implications of these expansions. Our results show that, on average, firms experience negative wealth effects when expanding to Africa. Further analysis shows that expansions to South Africa produce losses, while expansion to the rest of Africa produce positive gains. We also show that firms with higher profit margins and return on equity perform better than firms with lower margins and return on equity when they expand to Africa in countries other than South Africa.