

UNIVERSITY OF BAHRAIN
COLLEGE OF BUSINESS AND ADMINISTRATION
DEPARTMENT OF BUSINESS AND MANAGEMENT
MBA PROGRAM

THE PERCEIVED IMPACTS OF THE PRESENCE OF
FOREIGN FINANCIAL INSTITUTIONS
ON BAHRAINI ECONOMY

By

Ali Abdulla Ateek

A project submitted in partial fulfillment of
the requirements for the degree of Master of
Business Administration (MBA)

Presented to the University of Bahrain
In Partial Fulfillment of the Requirements

Bahrain

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Committee Members

-----	Dr. Saad A. Metawa	(Advisor)
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Bahrain

Jan , 1998

ABSTRACT

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The purpose of this study was to investigate the perceptions of managers in Bahrain (both financial and non-financial) regarding the effect of Foreign Financial Institutions (FFI) on Bahrain's economy .The problem motivating this study was the effects that FFI had on the social , cultural, political, legal, economic, business, and technological environments of their host countries, especially in developing nations .

This study is based on a survey of the perceptions of 61 managers regarding the roles of FFI in the Bahrain economy . A review of the literature on FFIs and their relationships with their host countries was provide . This review focuses on five major environmental dimensions (Social-Cultural, Political-Legal, Business-Economic , Company Specific and Technological structured dimensions) that are affected by FFIs .

A structured questionnaire was developed covering all major items in each of these dimensions . The study categorizes subjects by managers (financial and non-financial) . Since most of the variables in the study were measured using nominal and ordinal scales, mostly non-parametric statistics were used for data analysis. Section I of the questionnaire includes demographic items which are measured primarily with nominal or ordinal scales . Section II of the questionnaire consists of questions on the perceptions of subjects on FFI's effects on Bahrain . A five-items Likert-type scale is used . This Likert-type scale provides ordinal measures of the subjects' perceptions . At the end of the questionnaire there is an open-ended question designed to collect qualitative data that were analyzed accordingly. The t-test was used to test for significance in the differences between the two groups of a particular variable .

The major finding from this study was that the two groups of managers perception in Bahrain perceive positive impact on the presence of FFIs on Bahrain's economy, with the exception of the cultural environment . The favorable perceptions were about the FFIs effects on the change in business-economic, and technological environments in Bahrain . The results of the study should be beneficial to the Bahrain government , FFIs doing business in Bahrain, and also to cross-cultural researchers interested in the Middle East .

ACKNOWLEDGMENTS

ACKNOWLEDGMENTS

I would like first to thank my supervisor Dr .Saad A. Metawa - for his encouragement , constructive criticism and good humor from the start of the research project . I owe him a massive debt of thanks .

I would also like to thank all respondents in Bahrain, both in the Government and in the private sector, for giving of their time so generously .The respondents were a key part of the research process; they have my gratitude . I would like to extend special thanks to my wife for her support throughout the prolonged process involved in researching, and in writing .

Finally, I would like to thank Dr. Sheref Turen for his acceptance to be a research examiner . and Dr. Ahmed Khudair for his role and support as a reader of this research .

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1.1 INTRODUCTION :

The Bahrain economy currently relies on the financial sectors as a means of diversifying its economy away from the volatile oil economy. This policy has long been reflected in the government decisions and the country's economic plans . Currently, there is more than 195 foreign financial institution in the country . Given this strong presence of FFIs in Bahrain, this study was necessary to assess the impacts of the presence of FFIs on the various aspects of Bahrain economy . The Foreign Financial Institution (FFI) is a crucial change agent in developing countries. Meleka (1985) stated that with information , and technology networks FFIs can satisfy developmental goals and needs of host countries and, thus, become important agents and catalysts for growth and development..

This study is an empirical investigation, and its results can contribute to the long-term planning of both the Bahrain government and FFIs doing business in Bahrain. The major finding from this study was that managers in Bahrain perceive positive impact on the presence of FFIs on Bahrain's economy, with the exception of the cultural environment. The favorable perceptions were related to FFIs effects on the change in business economic, and technological environments in Bahrain .

Two recent articles suggest that these perceptions may be positive. According to Ajami (1980), Arab elites in the Middle East believe that the Foreign Financial Institutions have a positive impact on Arab economic development . This study is an empirical investigation , and its results can contribute to the long-term planning of both the Bahrain Government and FFIs doing business in Bahrain

All sectors of the Arabian Gulf economy have been set for massive structural changes over the last few years, giving close links between foreign trade, investment, and industrialization . And any new government's trade policy will have a big impact on strategic decisions by Foreign Financial Institutions .

1.2 Purpose of the study

The purpose of this study was to investigate the perception of managers in Bahrain regarding the role of FFIs in Bahrain's economy . In order to fulfill this purpose, a series of questions was asked to two groups of managers in Bahrain (Financial and non-financial) pertaining to their perceptions of the change occurring in Bahrain as a result of the presence of FFIs . These two groups were also asked to indicate the degree to which these changes are beneficial to Bahrain . The results of this study provide a composite view of the perceptions of managers regarding the impact of FFIs on Bahrain's economy and reveal whether or not these changes are considered to be beneficial to Bahrain .

1.3 Statement of the Problem

The problem motivating this study is the role of FFIs in achieving economic changes in Bahrain ,the large number of FFIs present in Bahrain, the important role of the Financial services in Bahrain economy and the lack of research in the area . It was expected that this would be reflected in the managers' perceptions about change in Bahrain. The multi-dimensional approach used in this study makes it possible to discern specifically which types of impacts are perceived to be negative and which ones are perceived to be positive . Change in Bahrain's economy is a result of both domestic and international forces . The presence of FFIs in a particular country has far reaching impacts on that country's economic business and culture environment. Investigation of these impacts represent the main source of reliable information which policy makers can use to formulate the country's policy regarding FFIs and corporate officers can use to develop their production marketing and financial strategies . The problem of this study is to investigate the perceived impacts of the presence of the FFIs on the various aspects in Bahrain to achieve the study objective.

1.4 Significance of the Study

This study is significant because of the usefulness of its findings to potential end users . The end users of the findings of this study should be the Bahraini Government , FFIs , and academia . The users can utilize information from this study in long-term planning . This additional information can enable the users to use economic planning in order to better manage the problems presented by rapid changes arising from the presence of FFI in Bahrain . It can be used in providing careful direction and control of foreign direct investment in Bahrain . The FFIs should find knowledge of the attitudes of its host to be useful .

This feedback is important to the FFIs because they can increase efforts in areas where they are welcomed and decrease them where they are not welcomed by the host nation . The acceptance of an FFI and its actions by the host is very important to its long-term survival and effectiveness. Another major benefit of this study for FFIs is that some of the results may be generalizable to countries similar to Bahrain . The third group to benefit from this study is the academicians who are interested in international business and related fields of study. This original , empirical study adds to the existing knowledge and provides foundation for future research .

1.5 Limitations of the Study

This study was based on a survey of perceptions . Casual inferences cannot be made from the results of this study . The conclusion that FFIs affect change in Bahrain is not appropriate for this study . The conclusion that may be made, however, was that the subjects of this study believe that FFIs affect the investment and economic environment in Bahrain in a certain way .

Another limitation of the study is that it does not distinguish between direct and indirect effects of FFIs . Subjects of the study were not asked to make a judgment on this issue . Thus, in addition to the causal direction of the effect , the nature of the effect is also outside the scope of this study.

The study involves only Bahrain , and only during a certain period of time . Results may be generalized to other nations only with caution . Repeating this study at another time might yield different results. Another limitation of this study was that it is not a normative study . Performance data of any kind were not collected . Thus , prescriptions for (what should be) cannot be made based on the results of this study . As descriptive research , it describes the opinions and feelings of the sample and nothing more . Because this is a study of the perception of managers, detailed quantitative analysis of actual change in Bahrain is excluded . Although this study is concerned with the role of FFI's in change in the Bahrain's economy , the actual changes in Bahrain's economy were not studied .

1.6 Study Methodology

This study employs questionnaire methodology through which the perceived impacts of the presence of the FFIs on Bahrain economy business and society are investigated. The questionnaire included a number of questions related to :

- a. Demographic characteristic of the respondent such (1) name of organization, (2) type of organization, (3) job title, (4) rank (5) nationality, (6) language spoken, (7) length of stay in Bahrain (8) age (9) education, (10) income .
- b. Elements of the Business environment that are likely to be affected by the presence of the FFI .
- c. Elements of the Political environment that are likely to be affected by the presence of the FFI .
- d. Elements of the Technology environment that are likely to be affected by the presence of the FFI .
- e. Elements of the Company environment that are likely to be affected by the presence of the FFI .
- f. Elements of the Social & cultural environment that are likely to be affected by the presence of the FFI .

A five-points Likert-type scale was utilized for measuring the perceived impacts of the presence of the FFIs on the above dimensions (b,c,d,e,f) . This measure was categorized as follows :

1 = Very low effect (mostly negative) , 2 = Low effect (slightly negative) , 3 = Moderate effect , 4 = Strong positive effect, 5 = Very strong positive effect .

After the collection of the data from the respondents a profile analysis was conducted to evaluate the overall perceptions of the surveyed managers regarding the study elements. In addition to the profile analysis the sample of managers where divided into two groups :

Managers of financial institution (MFI), and managers of non-financial institution (MNFI), in order to investigate whether or not significance differences exist between the two managers group regarding each element investigated in the study . A serious of T tests were performed to test the study hypotheses .

The main interest of this study is the change in this environment , and the extent to which it is affected by the activities of FFIs . Measurement of the actual change in the environment is outside the scope of this study. The purpose of this study is to investigate the perceptions of managers in Bahrain about these changes . Thus, the hypotheses of this study are related to the perceptions of the managers . Those hypotheses as well as the study questionnaire and the sample and statistical tests are discussed in detail in the methodology chapter.

1.7 Study Outline

This study was covered in seven chapters. Chapter one was an introduction to the study , chapter two was an over-view for the roles of the foreign financial flows in the economies of the developing countries. Chapter three discussed the background of Bahrain . Chapter four was the review of literature on multinational corporations. Chapter five was the methodology. Chapter six was the findings and chapter seven was the summary and conclusion .

CHAPTER 2

The Roles of Foreign Financial Flows in the Economies of the Developing Countries

An Overview

The Roles of Foreign Financial Flows in the Economies of the Developing Countries

2.1 An Overview

This chapter includes an over-view of the Foreign Financial Institutions, developing nations, and how FFIs affect the environment in developing nations . A review of the environment in Bahrain is provided . Because the study concerns the effects of FFIs on the environment in Bahrain , a review of the Bahrain environment is provided .

The focus in this chapter is on the relationship between FFIs and developing countries. Because the purpose of the study was to investigate perceptions of the impact of the presence of FFIs on Bahrain's economy, the major emphasis is on the effects of the FFI on this country .

2.2 The Foreign Financial Institution

The rapid development of the international finance and trade system since the end of the Second World War has led to extensive changes both in the structure of production and of finance . This internationalization of capital has resulted in the associated developments of the expansion of productive capital and financial capital as seen in the emerging global finance system (Jenkins, 1987) . The working definition of an FFI is a center that hosts financial activities that are separated from major regulation units (states) by geography and / or by legislation . This may be physical separation, as in an island territory .

2.3 The Macroeconomics Impact

Macroeconomics policies constitute one of the important determinants of the investment climate . Not infrequently, the investment climate in developing countries, including Arab countries, is vitiated by macroeconomics distortions . Substantial budget deficits, overvalued exchange rates, and negative real interest rates are typical of such distortions . Insofar as a budget deficit is financed through money creation, as often happens, it becomes a major source of inflation . Inflation militates against the investment climate . It undermines confidence in the national currency, weakens the incentive to save, encourages unproductive forms of investment such as holding foreign currency deposits and inventories, and causes capital flight .

Overvalued exchange rates exercise a similar impact on investment . They inhibit the inflow of capital and induce the outflow of domestic savings . By cheapening imports artificially, overvaluation of national currency encourages investments with a high foreign exchange component . The same can be said of negative real interest rates , which go a long way toward explaining the phenomenon known as the “ dollarization ” of the national economy, reflected in the widespread recourse to foreign currency deposits by residents whenever it is legally permissible . It is important to point out that macroeconomics distortions are interrelated . Budget deficits and excessive credit expansion lead to inflation, which underlies negative real interest rates and overvaluation of currency. By giving rise to the phenomenon of dollarization and by inducing capital flight, negative real interest rates intensify pressure on the national currency and can be a significant factor in the overvaluation of exchange rates. Thus, the economy slides into a vicious circle where each macroeconomics distortion feeds, and is fed by, the other . The combined effect of this vicious circle thoroughly distorts the investment climate .

2.4 Government Intervention

The costs of intervention are directly felt on the FFIs bottom line , and indirectly in the subsidiary’s strategically disadvantaged position . Most interventions either increase the cost of production , or decrease the sales price . Some interventions, such as forced joint ventures , cause profits to be shared in return for little or no consideration . Subsidiaries weakened by such intervention become more vulnerable to competition (domestic and foreign), and more dependent on host government support . Neither of these conditions generally forecast a desirable future .

Intervention also disrupts the multinational firm’s integrated strategy . Intra-MNE sourcing of technology, components and products is affected, as is the sourcing and utilization of capital funds. The freedom of the MNE to design global strategies is constrained , making it susceptible to less constrained global competitors .

The MNE’s traditional reaction to intervention creates other, more strategic , costs . Raising profit requirements, reducing asset exposure and belief in the uncontrollability of intervention has the opposite effect : it causes intervention to increase . The beneficial effects of intervention on its sponsors, supporters, and on the host nation in general are significant

and visible . Politicians and civil servants see desired economic policies implemented, their popularity improved and, sometimes, their bank accounts swell- not all illegitimately either . Domestic businessmen benefit by supplanting the FFI, or at least sharing profitability in the subsidiary's activities . The host nation benefits because politicians , civil servants and businessmen do, and because of any additional local value-added ? that may accrue .

The costs of intervention to the host nation are generally long term , and less visible . All things being equal , intervention decreases foreign direct investment, and speeds up foreign disinvestment . This constitutes a cost to the extent that host-nation firms can partially or fully replace the foreign investor with equally efficient firms .

In certain nations, intervention also results in wealth accumulating in the hands of a few domestic shareholders and politicians . Because of their risky positions these people often prefer to invest overseas rather than re-invest in their own countries . The net effect on host intervention sponsors is almost always positive , immediate and often financial , while costs are diffused and long term . And while that is the case , intervention in the operation of foreign-owned firms is a fact of life in a majority of the world's nations .

2.5 Flows of Foreign Direct Investment to Developing Countries

The characteristic of foreign direct investment flows during the 1980s has been the almost continuous decline in flows to the developing countries as a group . While the various statistical series available provide different estimates of the absolute magnitudes involved , they all reflect stagnation or decline compared to the levels prevailing at the turn of the decade . Moreover, the trend is almost universal among individual countries - in contrast to the situation among developed market economies , where the pattern has varied among countries . The People's Republic of China has been the only developing country to record a significant increase in inflows of foreign direct investment during the 1980s . For all other countries, the only observable trend has been towards a decrease in private capital inflows , particularly since the virtual discontinuation of voluntary commercial bank lending in 1981-1982 .

The depressed economic conditions that have prevailed in most developing countries for much of the present decade appear to have been the central reason for this slow-down in foreign investment inflows . However, in individual developing countries or groups of countries a number of more specific factors have had an adverse impact both on economic growth in general and foreign investment in particular . One such negative general influence has been the depressed state of and poor prospects for the primary commodities sector , on which many countries continue to be heavily dependent . The dramatic fall in the price of oil, while benefiting some, has served to widen the group of countries that have been subject to a significant decline in export revenue for reasons essentially beyond their control .

Rolfe, Robert (1997) argue that until the collapse of the Soviet Union in 1990, foreign-owned business was essentially banished by the Bolsheviks. When the hammer and sickle fell on Christmas Day 1991 , euphoria spread throughout the West . Suddenly Russia offered a vast , largely untapped market. To promote private enterprise, price liberalization's were initiated almost immediately in 1992 . During 1996 and 1997, Russia was one of the most profitable stock markets in the world. However, Russia lags in attracting long-term productive investment by western multinational companies, or what is known as direct investment . The reality is that business conditions in Russia have not been conducive to Western direct investment.

The prospects for a marked recovery of primary commodity markets in the present decade seem, under current global economic conditions, extremely limited . In the past , the development of oil and mineral resources and, to a lesser extent, agricultural commodities, has been a key element in attracting foreign direct investment to developing countries . This positive influence appears unlikely to prevail in the foreseeable future not only because of the poor prospects for investments in the primary commodity sector itself but also because of the sizable deleterious impact that the deterioration in commodity markets has had on the general economic situation, and hence on the overall investment climate , in the countries concerned . The decline in the fortunes of the oil-exporting countries has become only one example of this general vulnerability .

The heavy external indebtedness of many developing countries and the adoption of policies to mitigate the situation have been among the other factors adversely affecting the economies of these countries and their attractiveness to foreign investors. Low, and even negative, rates of economic growth, essentially attributable to their precarious balance-of-payments positions, have reduced returns on existing investments in these countries. Low returns obviously decrease the incentive for further investment, including foreign investment. However, they also reduce the funds available for investment, particularly foreign investment, since a large proportion, often around two thirds, of foreign investment is financed from profits made in earlier periods.

Foreign direct investment is also likely to be negatively affected by the corporations' fear that continued balance-of-payments constraints in the host country may limit the remittance of profits to the home country. Even in the absence of such limitations, fears of depreciation of the currency of the host country vis-a-vis that of the home country (which would reduce the profits of the host country entity when measured in the currency of the home country) may further dampen any desire to invest in the host country. The foregoing analysis suggests that negative perceptions about the economic prospects for indebted countries will continue to diminish their attractiveness as locations for investments by trans-national corporations. On the other hand, the possibility of some light at the end of the debt "tunnel" could readily induce trans-national corporations to revise these assessments.

It is generally recognized that export promotion has to be one element of the overall economic strategy of the indebted countries, and trans-national corporations could well play a supportive role in this process. Transnational corporations are frequently in a position to provide developing countries with access to the international market, either to the final consumer in the developed countries or as a supplier of intermediate goods into the corporation's own globalized production network. A second ingredient that is also often necessary for effective entry into the international market place is the utilization of up-to-date technologies and quality control.

Developing countries recognize that trans-national corporations are the prime source of commercial technology and many of them are adopting measures that they hope will attract those corporations and their technologies to their economies . If transnational corporations themselves become more optimistic about the indebted countries' general economic prospects, foreign direct investment could make an important contribution to the essential task of developing these countries' export sectors and thereby reviving their economic growth .

2.6 Direct Foreign Investment Strategy

The direct foreign investment decision results from a complex process motivated by strategic, behavioral, and economic considerations . Behavioral studies show that the foreign investment decision is often motivated by a strong stimulus from the external environment or from within an organization on the basis of personal biases, needs, and commitments of individuals and groups . The investigation process itself, particularly the choice of projects to be investigated, is a major determinant of the foreign investment decision . The economic rationale for direct foreign investment is based on a theory of imperfections in individual national markets for products, factors of production, and financial assets .

Product and factor market imperfections provide an opportunity for multinational firms to outcompete local firms, particularly in industries characterized by worldwide oligopolistic competition, because the multinational firms have superiority in economies of scale, managerial expertise, technology, differentiated products, and financial strength.

Oligopolistic competition also motivates firms to make defensive investments abroad to save both export and home markets from foreign competition. The product cycle theory suggests that new products be first developed in the most advanced countries by large firms that have the ability to undertake research and development. The new products are introduced into the home market and later exported . As the product matures and the production process becomes standardized, foreign competition reduces profit margins and threatens the home market . Part of the production process is then defensively relocated abroad to take advantage of lower unit costs of labor or other factors of production .

The theory of internalization holds that firms having a competitive advantage because of their ability to generate valuable proprietary information can only capture the full benefits of innovation through direct foreign investment. A desire to control the use of proprietary information explains the reluctance of multinational firms to unbundle their services to host countries in the form of management contracts and licensing agreements. However, economies of scale, location specific factors, and the price of such unbundled services also play a role in the decision .

Foreign investments are usually motivated by a wider and more complicated set of strategic, behavioral , and economic considerations . The investigation process is often longer, more costly, and yields less information on which to evaluate opportunities . Financial evaluations of initial foreign investments using traditional discounted cash flow techniques are not relied on as heavily as are domestic investments because of greater perceived business, political, and foreign exchange risks . And that explains the foreign investment decision as a result of a complex process that differs in many respects from that governing the domestic investment decision .

Foreign Financial Institutions indicate that their motivation for making direct foreign investments are based on strategic considerations , such as production in foreign markets either to satisfy local demand or to export to markets other than their home market, or to extract raw materials wherever they can be found, either for export or for further processing and sale in host country, such as companies in oil , like Bapco . Others companies are seeking production efficiency, knowledge, or political safety .

2.7 Behavioral Motives for Direct Foreign Investment

Yair Aharoni's (1966), study of the behavioral aspects of the foreign investment decision process found two sets of motives . One set arose from a stimulus from the external environment and the other from within an organization on the basis of personal biases, needs , and commitments of individuals and groups . His study found that an important external stimuli , such as that (1) an outside proposal, provided it comes from a source that cannot be easily ignored .

The most frequent sources of such proposals are foreign governments, the distributors of the company's products, and its clients . (2) Fear of losing a market . (3) The 'bandwagon ' effect : very successful activities abroad of a competing firm in the same line of business, or a general belief that investment in some area is “ a must .” . (4) Strong competition from abroad in the home market .

The behavioral approach to the foreign investment decision is usually a specific decision on a specific opportunity evaluated sequentially in response to a specific motivating force . It is not , typically , a program to search for all possible foreign investment opportunities, gather all the relevant data for each , compare and rank them, and choose those which rank highest . Of course, there can be numerous alternatives involved in one opportunity, or perhaps several foreign and domestic opportunities are evaluated at the same time .

Thus there is a need for ranking , but the constraint is more likely to be lack of management time and ability than lack of funds . In this case the ranking process may really be decided by the choice of which alternatives to investigate . *(The sequence and intensity of investigation , including the strength of the motivating force , thus becomes the major determinant of the foreign investment decision)* .

2.8 International Banking

Banking is an industry based upon the notion of “ confidence “ , whether this is placed in the individual institution or in the banking system as a whole . Thus, the perceived political stability of a given jurisdiction is vital . A jurisdiction that is politically stable will , all things being equal, attract both banks and depositors . The corollary of this is that a center experiencing political turmoil may well see a flight of capital to other, more stable, jurisdictions . An example of this was the instability of Panama in the late 1980s that led to a capital flight to other Caribbean OFCs and Panama's offshore bank deposits falling from \$ 28.9 billion in 1986 to \$ 8.2 billion by the end of 1988 .

The growth of multinational business since the end of World War 2 has been accompanied by a parallel expansion of the world banking system as banks from all major nations moved abroad aggressively to sustain their growth and to protect their domestic client bases from foreign competition. The terms world bank and multinational bank have come to mean a large bank with banking offices in many countries. Banking is a major multinational enterprise. The tasks undertaken by multinational banks include the following :

- Financing imports and exports (the traditional international banking task)
Foreign exchange trading in a volume unprecedented a few decades ago
- Underwriting both Eurobonds and foreign bonds
- Borrowing and lending in the Eurocurrency market
- Organizing or participating in international loan syndication's
Project financing
- International cash management , including new electronic ways of transferring funds from country to country
- Soliciting local currency deposits and loans with an intent to operate as a full-service local bank
- Supplying information and device to clients , including multinational firms

Some of the largest world banks attempt to do all of these things. Others have found it advantageous to specialize in a select few of the possible activities. Banks generalize or specialize according to their abilities and size, as well as their perception of what unique services their original home clients need.

Offshore banking is one of different types of banking offices. Offshore banking accepts deposits and makes loans and investments in a Eurocurrency, and books these transactions in an offshore shell branch location. Offshore banks are active in the purchase and placement of short-term funds, in syndicated loans, and in foreign exchange trading. Their depositors and borrowers are usually located in countries other than the home country of the offshore bank. Some offshore banks specialize in taking deposits for re-lending in their home country.

Host-country banking typically involves full-service banking in a foreign country through a branch or subsidiary of the parent bank. Deposits and loans are made in the local currency to residents of the host country, in competition with local banks. By combining correspondent banking, offshore banking, and host-country banking, a global network can be offered to meet the worldwide needs of client firms. Foreign banking offices of such a global network may be of five types: correspondent banks, representative offices, branch banks, subsidiaries and affiliates.

2.9 Multinational Companies and Host Countries

From an economic perspective host countries welcome multinational firms because they are viewed as agents of technology transfer and host country economic development. From a business perspective multinational firms are eager for opportunities to invest in geographic locations where they can earn a rate of return high enough to compensate them for the perceived level of risk. National and international market imperfections provide these opportunities.

Differing viewpoints on financial goals can cause friction within a multinational firm if local managers are citizens of the host country. Such managers are often experienced only in local business norms. Additionally they will have, quite naturally and correctly, a degree of loyalty to host country aspirations. The suitability of merger or joint-venture partners across national borders depends partly on how the importance of market value is perceived by the potential partners.

From the viewpoint of the multinational firm all national economic, political, social, cultural, and ideological goals as well as the policy instruments used to accomplish these, are parameters that circumscribe the firm's activities. It is unfortunate for the multinational firm that often government policies are unclear, or that two or more policies seem to be contradictory. Nevertheless, every host government has the right to be ambiguous, because ordering and implementing national priorities is not a science. Multinational firms must learn to live with this ambiguity. The important thing to remember is that they must be able to predict and adapt to changing national priorities and the resulting changes in the policy instruments.

Even if multinational firms follow a policy of adapting to national priorities, host country governments may still feel ambivalent toward them. After all, there is no consensus as to what constitutes favorable or unfavorable performance by multinational firms with respect to national goals. For instance, the impact of foreign-owned firms on the host country shows economic goals as growth, employment, price stability, and balance of payments.

Even when all political parties within a host country agree that foreign direct investment would have a favorable impact on their economic goals, they may oppose it on non-economic grounds. The most common arguments against multinational firms are the following :

- 1 . Economic imperialism
- 2 . National security
- 3 . Private enterprise inconsistent with a social transition
- 4 . Incompatibility with host country religion or cultural heritage
- 5 . Political expediency

Host governments often adopt laws and administrative rules that restrict operations of business firms in their jurisdictions. Sometimes inadvertently and sometimes by intent, such rules may be particularly burdensome to multinational firms. These regulations are not particularly directed against foreign controlled operations but often affect foreign firms more than local firms. Some of these regulations are as follows : the local nationals hold top management positions or seats on boards of directors; requiring export industries to sell in the home market at a break-even price in order to subsidize local consumption of the particular product ; limiting availability of foreign exchange to purchases deemed in the national interest, and consequently restricting the availability of foreign exchange for such ‘ nonessential ‘ purposes as dividends or royalty fee payments .

Other regulations give local firms or national groups specific advantages over foreign firms. Such regulations are allowing only joint ventures , with the foreign firm not being allowed more than 50 % ownership ; requiring special taxes or fees for a foreign firm to operate locally ; requiring national ownership as a criterion for access to credit from local banks .

2.10 Multinational Companies and Risk

Political risk is the possibility that a multinational company may be adversely influenced by political events within a host country, or by a change of political relationships between that host country and another country. Political risk arises because of a conflict in objectives between host governments and companies. It arises when the normal functioning of governmental administrative and legislative processes leads to regulations that influence the well-being of the company. Occasionally these political events constitute “expropriation,” but far more frequently they are simply regulatory constraints imposed on private business companies.

The political risk is the threat that a foreign government will change the rules of the game that is, break a promise or understanding after the investment is made. Some managers think of political risks as an act of God, while the most successful multinational companies structure their business to reduce political risks. Political risk is not confined to the risk of expropriation. Multinational companies are always exposed to the criticism that they siphon funds out of countries in which they do business and, therefore, governments are tempted to limit their freedom to repatriate profits.

Most political risk events are micro and project-specific, affecting only certain companies in certain industries, rather than all foreign companies. Government regulation of foreign companies may be classified as nondiscriminatory, discriminatory, or wealth-depriving. To minimize their vulnerability to political risk, multinational firms must constantly seek ways to be in a good bargaining position with their governments. Before an investment is undertaken an investment agreement is often negotiated in which all areas of possible future contention are discussed.

Garten, Jeffrey (1997), argues that, to mitigate the risks, multinational companies must learn to anticipate and respond to upcoming political and economic disruptions. They must also remain open to opportunities for cooperation between private and public sectors in emerging markets.

Most multinational companies can also turn to a home-country political risk-insuring agency; in the United States this is OPIC, the Overseas Private Insurance Corporation . Once an investment is undertaken , the parent company should establish and maintain policies that will enhance the firm's continuing value to the host country . A variety of risk-reducing policies can be undertaken in the areas of production and logistics, marketing, financial, organizational, and personnel policies . The company should have a well-designed plan to deal with major crises should they occur .

Makar, Stephen D ; and Huffman, Stephen P (1997) , argue that today's multinational companies face potentially significant economic exposure to changing exchange rates . One way to manage such currency risk is through the use of foreign exchange derivatives . Recent studies report that the use of foreign exchange derivatives varies across US multinationals and may depend on a variety of influences . A model is developed to explain these variations . The evidence indicates that the notional amounts of foreign exchange derivatives are positively associated with the degree of foreign involvement , which proxies foreign currency exposure .

Unsworth, Edwin (1997), argues that, consultants agree that as US multinational companies expand their operations, risk managers increasingly are instituting global programs for their corporate risks. Most companies with international exposures seem to be opting wherever possible to establish a global risk management program , though they are not always conscious of the possibility or the advantages of this until they ask their broker , insurer, or consultant to assess their exposures .

Anonymous, (1997) argues that an embryonic form of risk-sharing has begun to be used by major multinational companies , bringing a new risk management product onto the market . Known as alternative risk insurance, the product is underpinned by the present softness in the reinsurance market, where several underwriters have elected to look at new business methods .

CHAPTER 3

THE BAHRAIN FINANCIAL SYSTEM AN OVERVIEW

THE BAHRAINI FINANCIAL SYSTEM

An Overview

The purpose of this chapter is to present a brief historical sketch of Bahrain, with special focus on its banking, offshore banking units (OBUs), economic, and financial institutions.

3.1 Historical Background

A BMA Publication (1994) stated that, Bahrain is a small state, located within 20 miles of the eastern industrial province of Saudi Arabia. Thus, lying in the center of the Gulf. Bahrain has tended to be an ideal trading post since time immemorial. For the last five thousand years Bahrain has been known to the western world, firstly as Dilmun, then Tylos, thereafter Awal and finally Bahrain. The 36 island archipelago covering 695 square kilometers is situated approximately half-way between Qatar and Saudi Arabia along the western coastline of the Arabian Gulf, and is one of the most densely populated Middle East countries with 538,085 inhabitants (1993). The expatriate population includes Arabs, Asians, and Europeans.

From the beginning of the development of the oil industry, MNCs have played a major role in Bahrain's economic development. The MNCs' primary contribution has been in the development of the oil industry. Since then, MNCs have been attracted into numerous fields such as industry, construction, banking and investments, marketing, and services. MNCs continue to increase in Bahrain, although under current law the government requires MNCs to operate only through joint ventures with local partners. Most new businesses are still foreign firms with token involvement by Bahrainis in their management. Although these enterprises meet the legal requirements of a joint venture, the Bahraini partners often do not play the dominate role in their management.

A KPMG Banking in Bahrain (1991) stated that ,Banking in a formal sense but rudimentary form started in Bahrain when a branch of the Eastern Bank was opened in 1921 . This was followed by other banks in which it sufficient to cater for the needs of the time , providing trade finance and deposit facilities for customers. Surplus foreign exchange was invested in U.K. treasury Bills or government securities in accordance with Sterling Area arrangements. However, these pioneering banks witnessed the gradual transition of the economy from pearl fishing to oil and later the transformation of Bahrain into a services center - a process which originated with the setting-up of the troposphere scatter station on Jebal al-Dukhan for telecommunication links with the countries of the lower Gulf and the rest of the world. The extent of the transition of Bahrain's economy away from its dependence on the primary production of oil is reflected in its contribution to GDP falling from 36% in 1975 , to 17% by the late 1980s .

Over the same period, the share of services had increased significantly mainly due to banking and insurance, which increased its contribution from 3% to 12% . One of the principal diversification measures was to permit the development of Bahrain as a center for international financial activity . The decision in 1975 of the Bahrain Monetary Agency to allow offshore banking operations made it possible for Bahrain to become the highest volume financial center in the Arabian Peninsular region .

The rational behind the creation of Offshore Banking Units (OBUs) was that the world needed a mechanism to reinvest the surplus liquidity in the region . Given the post-1973 flow of wealth to the Arab world and the need to efficiently invest these resources , it seemed natural that a new financial center be created in an Arab country that was willing to permit international banks to carry on international banking business without local participation requirements. This was exactly the financial environment that Bahrain offered to the banking world .

Following these significant policy initiatives, Bahrain has established itself as a key center for international financial activity ; the size of the center is illustrated by the following table (1)

Table (1)

Number of Banks and their assets

Year end	Outstanding licenses in issue *	Total assets US \$ bn
1987	107	72.6
1988	102	77.1
1989	98	83.6
1990	94	68.9
1991	90	63.3
1992	88	73.2

* Includes full commercial banks , offshore banking units , investment banks and specialized financial institutions .

Source: KPMG "Banking in Bahrain", Dec. (1991).

With slowly declining oil reserves, the government became increasingly conscious that reliance on a single commodity was contrary to the long-term interests of the country and it took a series of judicious steps to diversify the economy . The transition was made easier by the availability of an educated workhorse with political acceptance, freedom from corporate, withholding or personal taxes, an advantageous time zone between the Far East and the West , excellent telecommunication and postal services, pleasant living conditions, a time-honored commercial tradition and the welcoming attitude of the people of Bahrain towards expatriates .

The expansion of banking in Bahrain as a consequence of progressively increasing regional oil revenues brought to the surface the need for the direction, supervision and control of banks through a central monetary institution . Such powers which were exercised by the Bahrain Currency Board were limited to the granting of banking licenses and the management of the currency issue, to organize banking business and control the banking system , to regulate bank credit in accordance with the policy objectives of the government , and to assist in the development of Bahrain's money and capital markets .

3.2 Bahrain Banking system

Under the overall supervision of the BMA, banking in Bahrain (1994), is organized into the following categories :

- full commercial banks (FCBs)
- offshore banking units (OBU's)
- investment banks (IBs)
- representative offices (reps)
- specialized banks
- foreign exchange and money-brokers
- money changers and dealers in precious metals .

3.2.1 The Central Bank

The Bahrain Monetary Agency (BMA) was established as an independent legal entity . The principal activities of the BMA are :

- to regulate the issue and circulation of Bahrain's currency
- to maintain foreign exchange reserves at levels adequate to support the currency in circulation and meet the country's external obligations
- to grant new licenses to banking firms and other financial institutions
- to regulate the types of business banks may or may not conduct
- to supervise and control the operations of the banking system
- to stipulate capital , reserve and liquidity requirements
- to inspect banking institutions and appraise their financial position
- to control and direct bank credit in accordance with policy objectives
- to administer a domestic clearing house
- to issue treasury bills and bonds on behalf of the Government of Bahrain .

3.2.2 Full commercial Banks (FCBs)

The number of full commercial banks licensed to operate in Bahrain is limited by the BMA ; at present there are 17 banks with FCB licenses . The National Bank of Bahrain is the largest of the country's commercial banks . The activities of the commercial banks have traditionally been focused towards lending to the manufacturing, trading, personal, construction and other sectors .

3.2.3 Offshore Banking Units (OBUs)

A BMA Publication Reports (1994), states that, the success of Bahrain in developing a regional market in offshore banking business has been strongly praised by observers and commentators . In September 1975, the Bahrain Monetary Agency announced its plans to develop a center in the Arab World for dealing in international liquidity, offering an attractive package to prospective participants . First and foremost were the regulatory and fiscal incentives. In particular, OBUs were exempted from maintaining reserves with the Agency or from observing liquidity ratios . No withholding tax was to be applied to the interest earned by depositors.

No tax was to be paid on banks' income and this exemption continues to be effective even now . Secondly, general working and living conditions in Bahrain were most favorable . An absence of restrictions on private enterprises, freedom from exchange and trade controls and a good infrastructure, including excellent communications , were also important factors . The presence of a local population with a natural aptitude for, and tradition of, trading was an additional attraction . Thirdly banks and customers took confidence from the regulatory framework established by the Agency .

The Terms and Conditions Applying to Offshore Banking Units (OBU):

- OBUs may be branches, subsidiaries or joint ventures
- OBUs must be fully staffed and operational at all times
- OBUs may transact business with the Government of Bahrain , its agencies, or any licensed bank operating in Bahrain . Transacting business with any other entity or individual resident in Bahrain requires the prior permission of the Bahrain Monetary Agency and such permission would normally be given only if the transaction is related to a development project .
- OBUs may provide non-residents of Bahrain with all banking services except checking accounts .
- OBUs which are branches are not required to maintain any reserves with the Bahrain Monetary Agency .
- OBUs are required to supply to Bahrain Monetary Agency such statistical information as may be prescribed by the Agency from time to time .

- OBUs are required annually to submit to the Bahrain Monitor Agency a balance sheet and profit and loss account, audited by auditors approved by the Agency and to submit such other specific or general information as may be requested by the Agency . Such accounts and other information is required within 90 days of the year end .
- OBUs which are partly or wholly owned by banks or other entities are required annually to file with the Bahrain Monetary Agency a copy of the consolidated accounts of the owners .
- OBUs are required to pay to the Bahrain Monetary Agency an annual license fee of an amount as may from time to time be prescribed by the Agency .
- OBUs are not subject to any taxation on profits and no such tax is presently planned or proposed by the Government of Bahrain .
- OBUs are subject to the provisions of the Bahrain Monetary Agency Law-Decree Law No. (23) of 1073 .

The Agency has remained selective in granting licenses, i.e . choosing banks from amongst those of high international standing and from as wide a geographical area as possible . The number of licensed OBUs stood at 45, of which 11 were locally-incorporated and 34 were branches of foreign banks . The growth of the OBU market was due to a number of factors. Firstly, the oil-rich countries surrounding Bahrain had substantial surpluses to invest following the oil-price increases in the 1970s . The OBUs were able to tap these funds and recycle them to finance developmental and other projects in the Gulf region and elsewhere . A second principal factor was the time-zone advantage enjoyed by Bahrain relative to other major financial centers, enabling the OBUs to deal with, for example, Tokyo, London and New York during the same working day. The Bahrain market, like all the Europe-currency centers, is predominantly an interbank operation and a regional and international wholesale money center .

At end-1993 , the total balance sheet footings of the OBUs had reached US \$60.2 billion . 57.5% of these funds were interbank deposits and 62.2% of their placements were with banks . This position reflects the resumption of confidence in the area and the recovery of business following the Gulf crisis of 1990-91 .

A noteworthy feature was a growth in non-bank deposits of 14.7% between end-1991 and end-1993 . This indicates that OBUs have been successful in securing official and other funds . The aggregate assets / liabilities of the Offshore Banking Units (OBUs) were \$68.8 billion at end-March 1997, an increase of \$1.9 billion, or 2.8% , compared with end-December 1996 . Geographically, the sources of funds of OBUs have been mainly from Arab countries and western Europe. The former contributed some 50.2% at end-1993 and the latter 20.2%. A significant contribution of the OBUs has been in the establishment of wholesale money and interbank market, funds moved out of the region seeking higher returns, but the Bahrain market soon become sophisticated enough to offer to large investors the opportunity of lending and borrowing funds within the region . To achieve this, banks in Bahrain had to offer interest rates and other terms which were competitive with other centers . For example, spreads between deposit rates, bid and offer, have tended over time to synchronize with spreads available in other international markets .

The establishment of the OBUs represented the major factor in the diversification of the economy into a financial center for the Gulf and the Middle East . Financial benefits accruing to Bahrain from the presence of the OBUs include license fees, economic value added in terms of expenditure on goods and services, and employment , in the table (2) shows down the percentage of the Bahrainis working in the banking system .

Table (2)

Employment in the Banking System

Year	Bahrainis	Non-Bahrainis	Total	Bahrainis %
1987	1,313	689	2,002	65.6
1988	1,275	634	1,909	66.8
1989	1,228	646	1,874	65.5
1990	1,101	543	1644	67.0
1991	968	453	1421	68.1
1992	918	468	1386	66.2
1993	968	453	1421	68.1

Source : A BMA Publication “ Bahrain An International Financial Center , (1994).

3.2.4 Banking Supervision

A BMA Publication Reports (1994), states that, banking supervision covers such matters as management, risk management system, and accounting and other records . As part of its supervisory activities, prudential meetings continued to be held with banks, at which issues such as planning and strategy , capital adequacy, asset quality, liquidity, profitability, market and credit risk, internal controls, the operations of overseas branches and subsidiaries, computerization, and staffing and training were discussed . In addition, meetings were held with banks ' external auditors on a regular basis .

In line with supervisory developments internationally, the Directorate continued to develop its computerized approach to the detection of non-compliance with Agency directives and of weaknesses in the banks' operations, so as to enable any precautionary measures in these areas to be taken as early as possible .

3.3 Developments in Bahrain's Economy

A BMA Publication (1995), states that, the last half century or so has been characterized by the discovery and exploitation of Bahrain's oil resources and the emergence of an industrial and service-oriented economy, which is oil-based but has become increasingly diversified .

Until the first quarter of the 20th century , Bahrain retained importance as a distribution center, helped by its strategic location and its harbor facilities . The growth of foreign trade encourage expansion of the merchant sector which, by way of duties and tariffs on imports, contributed the major part of the national budget . In 1930, customs duties accounted for 97% of total Government revenue .

The boom throughout the Gulf generated by increased oil revenues in the early 1980s, coupled with the diversification of Bahrain's economy, brought about a further revival of Bahrain's role as an entrepot-trading center. The trade sector grew progressively to become an increasingly important source of income and employment .

The growing revenues accruing from the oil industry enabled the Government to accelerate social and economic development . Funds became available for the building of Bahrain's infrastructure, power generation, sewage works, roads, port and airport expansion, and also for the establishment of new energy-intensive oil-based industries .

Bahrain's strategy of economic planning has been outward looking . With the lack of natural resources, except oil and gas, and a large-scale dependence on export-led growth , Bahrain has not only developed an export-oriented industrial sector, but has also become a center of international trade and financial services . Offshore Banking Units and investment banks operating in Bahrain contributed about 10.0 % of total GDP at current prices in 1993 . About 2,160 people are employed in this sector - about 2.1% of the total workforce .

The transition of Bahrain's economy from its dependency on the primary production of oil can be broadly gauged by comparing the components of GDP in 1980 with those in 1993 . In 1980 crude oil accounted for 34.5% of GDP at current market prices, manufacturing for 16.1% (of which about half was due to oil refining and aluminum) and services for 47.2%. Among services, banking and insurance accounted for 10.0% of GDP. By 1993, crude oil and gas contributed about 16.8% of GDP, approximately the same as the manufacturing sector . The tertiary sector's share had risen in importance to 75.1% , with banking and insurance contributing as much as 15.6% to GDP . The other principal contributor to the tertiary sector was public administration which accounted for 20.3% of GDP in 1993 .

CHAPTER 4
LITERATURE REVIE

Literature Review

This chapter reviews all previous studies that are related to the topics discussed in this research .

4.1 Multinational Corporations

A multinational corporation is a company that does business in two or more countries, Ball and McCulloch, (1988). This international involvement can be anything from just exporting to having wholly-owned subsidiaries around the world . Larger corporations which have operations in Bahrain are of particular interest .

And the behavioral definition of the multinational corporation is that the true multinational corporation can be characterized more by its state of mind than by the size and worldwide dispersion of its assets . Rather than confine its search to domestic plant sites, the multinational firms asks, where in the world should we build that plant ? Similarly , multinational marketing management seeks global, not domestic, market segments to penetrate, while multinational financial management does not limit its search for capital or investment opportunities to any single national financial market . Hence the essential element that distinguishes the true multinational is its commitment to seeking out and undertaking investment, marketing, and financing opportunities on a global, not domestic , basis .

Large international firms are better able to exploit such competitive factors as economies of scale, managerial and technological expertise, product differentiation, and financial strength than are their local competitors . In fact, multinational firms thrive best in markets characterized by international oligopolistic competition, where these factors are particularly critical . In addition , once multinational firms have established a physical presence abroad, they are in a better position than purely domestic firms to identify and implement market opportunities through their own internal information network .

Larger corporations are more likely to affect developing countries than smaller companies which have fewer international operations . The first reason for this is their size . In 1985, the total sales of General Motors corporation (GM) was less than the Gross National Product (GNP) of only twenty-one nations . All other nations of the world had GNPs that were less than the total sales of GM (World Bank Atlas 1987) . This obviously gives a lot of power to am in its relations with these nation states (Aldaeaj , Thibodeaux , and Nasif 1989) .

The second reason is the fact that these large corporations are geographically diversified in their operations and have a minimum dependence on any one location , Again , this increases their power base in relationship with the host nation state . The influence in a relationship is the result of the power differential between the two parties . The greater the power balance is in favor of the MNC , the more it can affect the environment in the host nation . Until the 1960s this balance was usually in favor of the multinational corporation, but recently the power balance has shifted toward the nation state . Consequently, developing countries now have more influence and affect on MNCs (Aldaeaj, Thibodeaux, and Nasif 1989) .

In an attempt to emphasize the importance, power, and effects of FFIs most literature compares the sales of the largest FFIs , to the GNP of developing nations . Baker, Ryans, and Howard (1988), point out how misleading these comparisons are . They say that the majority of an FFIs sales typically occur in its home market and that , ultimately, the nation state has the authority (sovereignty) over a company within its borders regardless of the size of the company .

The still growing post-World War II wave of direct foreign investment and the growth of multinational business enterprises is perhaps the major economic phenomenon of the last half of the twentieth century . This development , which holds such potential for the economic betterment of the world's population, runs counter to the postulates of Smith and Ricardo in that it is based on the international mobility of the most important factors of production in the twentieth century .

Elias, David (1997) argues that the barometer of economic growth remains favorable throughout much of the world, which opens the door to investment opportunities in multinational companies that are leaders in their fields. One of the most efficient methods for an investor to enter the international arena involves finding a field of multinationals that stand to perform best under the global economic conditions experts expect.

Today's Foreign Financial Institutions are different from those of the past. Technological developments such as transportation, computerization, and advanced telecommunications have made it possible for an FFI to easily coordinate and manage its global operations. In the past, the management of a subsidiary was generalized control of management, and it is possible in spite of the distance between a corporation's headquarters and its subsidiaries. Through the advantages of technology, size, and geographic diversification, the FFI has evolved into a major force in the world economy.

Henderson, Barry (1997) argues that the bigger multinational companies are growing faster than their smaller, weaker counterparts. They expect technology-related names to make the biggest gains abroad, and not surprisingly, they are the largest holdings in both funds.

Most of the study of Foreign Financial Institutions, even in discussions of the technical application of various financial criteria, the ever-present main point proved to be that considerations of market position dominate the decision-making process. They determine the need, the urgency, and the desirability of an investment, while financial evaluations are used mainly to test the validity of marketing assumptions and to determine both the financial requirements and financial means for attaining marketing goals.

Reiffers (1982) argues that the FFI phenomenon derives its power from four major features: its mass, its speed, its flexibility, and its magnetism. The first factor, the mass, refers to the number and size of the FFI. The amount of world economic activity they provide certainly makes FFIs a major force to be recognized. The second factor, its speed, refers to its rate of growth. FFIs had the highest rate of growth after the second World War.

The annual rate of growth (direct investment stock) of FFI has been higher than the annual growth rate of the GNPs, even of developed nations (10.7 vs. 9.1, for 1967 and 1971) . In 1988, the overall average increase in the market value of the global top 1000 companies was 5 percent (“The business Week Global 1000” 1988) . The average annual growth rate in the GNP of the seven industrial nations is shown below in table (3) .

Twenty-five years ago , there were 7,000 multinational companies , and more than half of them were based in the US . In 1996, there are easily 50,000 and their owners span the globe as national borders evaporate, cultures merge and foreign policy becomes inexorably linked to national economic aspirations . US companies have more than 19,000 direct investment affiliates overseas through which they own or control at least 10 % of the voting stock . Together, these affiliates manage some \$2 trillion in total foreign-based assets and employ nearly 7 million people . The industrialized countries are by far the largest recipients of this investment , accounting for upwards of 11,000 regional and affiliated sites, \$ 1.4 trillion in assets and 4 million people on the employment roles, according to the US Bureau of the Census . Most companies have flocked to the already developed nations, even when emerging markets promise so much upswing potential, because the industrialized countries offer stable political climates, familiar business practices, ease of entry, convertible currencies, skilled workforces and sophisticated consumers, less risk .

Table (3)

GNP GROWTH OF INDUSTRIALIZED NATIONS

Nation	Growth Rate
Japan	5.8 %
Canada	4.3 %
Britain	4.0 %
United States	3.9 %
Italy	3.0 %
France	2.9%
Germany	2.9%

Source : “Fortune Forecast .” Fortune 11 (July 1988): 26 .

The third factor, the flexibility of FFIs, refers to their ability to adapt to changing environments . FFIs have diversified in every possible way (product, processes, locations, etc.) which gives them the ability to respond to any kind of threat or opportunity in the environment . The fourth factor is the magnetism of FFIs, which refers to there ability to integrate and coordinate a global system . These characteristics of FFIs give them the power to affect the social, political, and economic development of the nations in which they do business .

Ball and McCulloch (1988) , describe the external environment in which FFIs operate , using ten major factors : (1) competitive, (2) distributive , (3) economic , (4) financial, (5) legal, (6) physical , (7) political, (8) souci-cultural , (9) labor, and (10) technological . These factors can be grouped under four major categories : (1) social-cultural forces, (2) political-legal forces, (3) business-economic forces , and (4) technological forces . Social-cultural forces in FFIs environment refer to factors such as education, religion, values, tradition, language, population trend and other factors which provide the basis for social behavior of individuals in that society .

Chou, David C (1996) argues that to mange its information processing and decision making effectively, a multinational companies needs an integrated and distributed architecture . The characteristics of effective multinational information and decision supports system are (1) a multilanguage processor , (2) compatibility in data format and structures, (3) a database of local regulatory and legal systems , (4) a database of culture patterns of management and decision making , and (5) security provisions . It should also have the following characteristics : (1) system integration, (2) global coordination, (3) a powerful repository for strong system wide data and information, and (4) an integrated CASE-based environment .

The political-legal environment includes the government system, laws, judicial system, politics, democracy , freedom, independence , terrorism, and other factors which basically relate to how this society governs itself and the stability of this process. The business-economic environment includes factors such as the GNP, income distribution, structure of economic sectors, taxes, labor forces, marketing-distribution related factors, financial-monetary factors, infrastructure, foreign trade, and business management styles-processes-structures in that country .

The technological factors include computerization, factory automation, telecommunications, research and development institutions and activities, and other factors which relate to the overall technological development level of the country . This classification of the factors in the investment of FFIs provide the structure of the questionnaire used for this study . The opinions of managers in Bahrain were solicited . Managers were asked if FFIs had any impact on these environmental forces in Bahrain and if the impact was beneficial to Bahrain .

Kumar, Nagesh (1994), found that multinational enterprises (MNE), often shift some or all of their production to low-cost locations in order to remain competitive . Such export platform investments are important sources of expanding manufactured exports for the host countries . The export orientation of foreign investments varies widely across countries depending upon their relative attractiveness as a location as perceived by Manes . The role of structural and policy factors in explaining a country's attractiveness as a base for export-oriented production by US MNEs is examined . Empirical analysis finds wage rates and industrial capability to be important determinants of export-oriented production attracted by a country . Exports generated by relocation are found to be dependent upon intra-firm imports . US MNEs are found to be using their hosts as export bases more selectively .

Ahkam, Sharif N, Baker, James C., (1993), find that several issues concerning foreign project evaluation are critically examined . It is suggested that the point of view for analysis , cost of capital , and cash flow estimation be internally consistent . Three points of view of analysis, local, global, and parent specific, are identified and various inconsistencies in the estimation of the initial outlay and project cash flows are identified . The elimination of the inconsistencies is discussed . It is argued that the treatment of block funds is relevant only from the parent specific point of view . A number of alternatives for the estimate of the terminal value is also suggested . The differences between the parent specific point of view and the global and local views are sharply drawn. An integrated scheme is also presented to underscore the need for constancy in evaluating foreign investments .

Quinn, Jane Bryant , (1992) , finds that one of the smartest investment in the 1990s is in foreign markets, because while the US is wrestling with debt, foreign countries are gaining strength . Solid reasons for putting 10% to 20 % of investments overseas include (1) to own a piece of other countries' growth, (2) to invest in other currencies , (3) to invest in the strongest economic trends , and (4) to reduce overall investment risk. Factors that influence profit from foreign investments are how well the foreign markets and US dollar perform . To pick foreign stocks and bonds successfully, knowledge of foreign economies, tax laws, financial news, and interest rates is needed . An easier solution is to buy mutual funds and let the fund managers handle everything . Global funds buy worldwide, international funds buy everywhere but the US , and regional funds buy in small group of countries .

Cooke, William N (1997), argues that although managers of multinational companies have identified labor practices and regulations, access to skilled labor, and similar factors as important considerations in foreign direct investment decision making, few studies have empirically examined the influence of industrial relations factors on foreign direct investment. The influence of several key industrial relations variables on US foreign direct investment across 9 industries and 19 OECD-member countries is examined .

Brewster, Chris, Pickard, Juana, (1994) . The assumptions that lie behind much expatriate preparation are examined by analyzing participant responses to a well-established and well-supported expatriation program being run in the UK . The population for this study was a sample of 690 expatriates, along with their spouses , who attended courses between 1988 and 1992 . The results show that expatriates and their partners are very positive toward formal training for expatriation . They believe that it helps them to make the adjustment to living and working in the host country .

Their belief is not significantly affected by the age at which they received the training, previous expatriate experience, the point at which they are asked for their response, the destination (other than a difference between underdeveloped and developed societies), or the type of organization for which the expatriate works . The data captured suggest that the degree of influence exercised by the expatriate community may affect the difficulty with which expatriates and their spouses adjust to the host environment .

Rolfe, Robert J , Ricks , David A, Pointer , Martha M, McCarthy, Mark, (1993), find that the attractiveness of 20 host country incentives is evaluated by the managers of US firms with operations in the Caribbean region . Multivariate analysis of variance was employed to determine whether increase preference were a function of investment characteristics. The results indicate that incentive preferences depend on the type of investment, market orientation, size of investment, geographic location, year of investment, and type of product . In addition, exporters considered import duty concessions to be more desirable than did investors oriented toward the local markets .

Averyt (1990), suggests that foreign direct investment (FDI) is an increasingly important element in the US economy . Internationalization has produced protectionism pressures against foreign goods and foreign investment and concern over the degree to which foreign funds are used to finance the federal deficit . Foreign Financial Institutions (FFI) face a difficult challenge in how to monitor and influence public policy in a foreign country in which they apparently represent no domestic US constituency . Corporate representation in Washington, DC, is one way for foreign FFIs to understand and respond to national policies that affect their corporate interests . Corporate representation helps foreign FFIs learn the rules of access to the US market at any given moment and anticipate coming changes in these rules. Foreign corporate representation has grown significantly in the 1980s, driven by foreign imports and exports and FDI .

The demands of managing in an international operating environment have changed in recent years . There is a new need for the integration and coordination of activities . In addition, conditions have increased the value of more nationally responsive differentiated approaches . And the ability to transfer knowledge and expertise from one part of the organization to others worldwide has become more important in building durable competitive advantage .

Chiesa, Vittorio (1996) has concluded that the increasing dispersion of R&D laboratories in different countries force multinational companies to take a global view in managing their research operations and to make efforts to coordinate their dispersed R&D. Few studies have so far investigated whether or not international R&D structures exist , and how forms of division of labor , interdependencies and coordination among geographically dispersed units take place . A taxonomy is proposed of international R&D structure and an attempt is made to identify why and

how they are designed as they are . The findings are based on the field research of 12 multinational companies . It is shown that the shape of the structure is dependent on the type of R&D activity the more dispersed structure tends to be . The structural outcome seems to be strongly influenced by 2 variables (1) the degree of dispersion of external sources of knowledge, and (2) the degree of dispersion of the key internal R&D resources .

4.2 Host Country Views of Joint Ventures

There are a number of reasons why developing countries have favored joint ventures when foreign direct investment is allowed at all . One is simply a desire to protect sovereignty : to ensure that foreign firms will not control key decisions in the economy . In addition , it is thought that joint ventures are a good way to encourage the transfer of technology and to train local business people in the operation of a modern firm . Another rationale for forcing joint ventures is more complex - they are viewed as a way in which the local economy can participate in what are thought to be monopoly profits of multinational firms operating in the host country. Most developing countries prohibit foreign investment in some sectors and require joint ventures in others .

A recent study by Frost and Sullivan Inc . (1988) ranked the degree of restrictiveness of these measures, as shown in the table (4) a value of 1 denotes very stringent restrictions on ownership (for example , Iraq), while 5 indicates very liberal ownership policies (for example, Morocco) The greater cost of forced joint ventures with host-country partners appears to result from their high failure rate after operations have started .

Table (4)

Foreign Ownership Restrictions - Rankings of Arab Countries

Algeria	2	Kuwait	3	Sudan	5
Egypt	4	Libya	2	Syrian Arab Rep	2
Iraq	1	Morocco	5	Tunisia	5
Jordan	2	Saudi Arabia	3		

1 = very restrictive ; 5 = very liberal .

Source: International Monetary Fund, “ Investment Policies in the Arab Countries ” (1990).

Joint ventures are the most common method for becoming international for most FFIs . This may sometimes be due to local legal constraints, as is true in Saudi Arabia . Bahrain requires that FFIs have a local partner and that an MNC cannot have more than 49 percent ownership . There are advantages and disadvantages to joint ventures when compared to wholly-owned subsidiaries . An advantage is that the MNC has a local partner who can show the MNC how to do business there and provide essential insights into the environment . The partner also provides very crucial contacts to government and other important clients or suppliers . A disadvantage is the control given away to the local partner . The amount of control sacrificed, however, has nothing to do with the percentage of ownership . It depends on the partners’ dependency on each others critical inputs such as knowledge, raw-materials, technology, and personnel .

4.3 The Role of Joint Ventures and Investment Authorities

Dale Weigel (1988) suggested several conclusions, the first is that the role of an investment authority is linked to the policy framework the authority is expected to administer . In many developing countries these policies are being changed to open more sectors to foreign investment and to allow greater involvement of foreign investors in individual enterprises .

An increasing number of developing countries are abandoning requirements that foreign investors participate in joint ventures with local investors. These changes are taking place as developing countries have come to doubt the benefits of joint ventures and have seen their costs. As they redefine their economic goals, and as they gain confidence in their ability to control the activities of foreign investors regardless of their share in the ownership of individual enterprises, developing countries see less value in earlier policies to require joint ventures. In these circumstances, investment authorities are becoming more concerned with promotion and allocation of incentives, and less with screening and control. It is difficult to contemplate the coexistence of rigorous screening and promotion functions in the same organization. These functions require different types of people, and a different mentality. The evolution of the single investment authority is thus predicated on liberalization of investment policies that make it possible to de-emphasize the screening function and give greater attention to promotion. This is now the trend in many developing countries. The challenge faced by these countries, of course, is to put in place a general policy framework that encourages beneficial foreign investments, and to identify specific investments as targets for the promotion effort.

Burgi, Andreas (1997) argues that as multinational companies continue to venture further abroad, sending their employees to remote locations around the globe, the providers of international medical insurance are finding that insurance certificates and payment guarantees by fax always provide the security of immediate treatment that the insured expatriate requires. Leading international medical insurers and evacuation assistance companies have developed additional services to meet demands.

4.4 Foreign Investors Views of Joint Ventures

Foreign Financial Institutions also see benefits in joint ventures and voluntarily enter into them in some circumstances. This is a trend in developed countries, where even the largest firms are seeking alliances to develop technology, enter markets, and improve production techniques.

In developing countries, some firms enter into joint ventures voluntarily with local firms to incorporate their knowledge of managing the local labor force, the market, and to help in interactions with the government. A recent survey is done by Cynthia Day Wallace, (1989), of 300 of the largest U.S. multinational corporations showed that 65 % of these firms view ownership restrictions as being a critical negative factor in assessing the viability of an investment.

Ben Gomes-Casseres, (1988), found that econometric evidence also shows the negative impact of ownership restrictions on investment decisions, that developing countries appreciate the disincentive effect of ownership restrictions is shown by their actions--almost without exception; when they decide that they want to encourage more foreign investment, one of the first things they do is to liberalize their ownership restrictions.

Bemish attributes most joint-venture performance and success to compatible partner selection. He says that FFIs which “look to local partners for contributions in general management, functional managers, knowledge of current local business practices, and customs (1987) were generally more successful. The less-successful joint-ventures occurred when FFIs looked to their partners for contributions in being able to satisfy existing / expected government requirements for local ownership or to avoid political intervention (1987). Most joint-venture failures in any country occur because of the lack of trust and understanding in the relationship. The host government, the local partner, and the MNC all have different goals. Lack of goal congruence leads to conflicts among these parties (Aldaeaj, Thibodeaux, and Nasif, 1989). If the partner is a state-enterprise the problems faced are more difficult to handle for an MNC, compared to having a private local partner. FFI joint-ventures in Bahrain include both private and public local partners.

The Government of many nations of the world are keen to encourage investment in their industrial development by overseas-based companies. They may prefer to support joint ventures with a domestic partner to work with the foreign enterprise, or they may welcome investment from individual undertakings from abroad. Support for foreign investment may take many forms. It may have conditions attached, including specifications on the origin and nature of the investment, and conditions for company organization and repatriation of profits.

Often there are specific development agencies appointed to administer foreign investment, and the whole subject must be seen as a part of the overall economic development policy of the country concerned .

4.5 Promotion of Arab and Foreign Investment

Hazem El-Biblawi , and Ebrahim Shihata , March (1990) , were among the first to address the topic of inter-Arab investment . They pointed out that a distinction had to be made between the Arab countries that would increasingly be accumulating surplus funds and seeking investment opportunities and those that would suffer from severe financial deficits despite the investment opportunities available in their territories .

They emphasized the need to create an optimal environment to facilitate the movement of capital, goods, and services among all the Arab countries. Twenty-five years later, only a fraction of overall external Arab investments has flowed among Arab countries for the purpose of direct investment . Worse still, resources seem to be flowing now from some of the poorer Arab states to the developed countries in what appears to be an increasingly widespread phenomenon .

A significant expansion of private investment , domestic or foreign , in an Arab country requires the creation of an attractive investment climate on the basis of a comprehensive economic strategy adopted by the country concerned . Such a strategy must be based on realistic macroeconomics policies that achieve stabilization at home without overlooking the ever-increasing relationship between local and international economies . This requires :

- Economic incentives designed to encourage efficient use of resources based on sound macroeconomic policies and structural, including pricing adjustments .
- Infrastructure representing the minimum requirements for investment , be it material (roads , communications , etc.) or human (requisite number of workers in the specialization's needed , coupled with proper training and discipline) .
- A banking system managed by institutions able to mobilize and utilize domestic savings and inflows of funds efficiently and effectively with limited but effective supervision by governmental regulatory agencies .

- An overall stable institutional framework based on (a) up-to-date laws and regulations protecting the public interest and providing stability and protection of private property without excessive restrictions that could adversely affect initiatives and lead to delays and corruption , (b) practical and rapid action to ensure respect for regulations and the settlement of any disputes without delay or complication, or conciliation and arbitration, and (c) government agencies exercising duly publicized limited powers, efficiently and impartially .

They pointed out the particular importance of modernizing the financial sector . Establishing a higher Arab institute for research and training may be considered for this purpose . This may also assist in following developments in external money markets and the creation of new mechanisms for the effective mobilization and safe investment of funds .

Werther, Guntram F A (1997) concluded that failure to understand the social and political dynamics of countries and regions is one of the primary causes of business failures within overseas markets . Success in “New World Disorder ” requires that executives and managers bring new multi-disciplinary skills to their analyses of how societies react to foreign investment and change . Successfully developing areas share specific characteristics that most societies do not possess, and are unlikely to gain within any reasonable time period .

4.6 Role of Foreign Investment

According to Said E L-Naggar, (1989), foreign direct investment has played a minor role in the economic development and the adjustment process of capital importing Arab countries . Like other developing countries during the seventies, the Arab countries resorted to foreign borrowing to meet their external financing requirements . For a variety of reasons, foreign borrowing rather than foreign direct investment was the preferred form of financing . Foreign direct investment that was closely associated with Foreign Financial Institutions was perceived to be incompatible with this goal. There was also a tendency to discount the presumed advantages of foreign direct investment compared with other forms of financing .

The impact on employment was seen as minimal in view of the capital-intensive techniques imported from the home country ; the transfer of technology was seen as a mirage as Foreign Financial Institutions were secretive about their methods of production, and training of local personal was kept within the narrowest possible limits . Equally important was concern about the distribution of benefits between the host country and the investing corporations in terms of tax revenue, value added, and reinvested profits .

These were some of the considerations behind the relative decline in the role of foreign direct investment during the seventies . The most important factor, however, underlying the changed attitude toward foreign direct investment is the recent developments in the international financial system. The debt crisis of the early eighties has underscored the serious limitations of heavy dependence on foreign borrowing . A heavy debt-service burden combined with variable interest rates on a large proportion of their debt made the heavily indebted countries particularly vulnerable to external shocks . A prolonged recession in the industrial countries , in addition to the high cost of energy and the collapse of prices of principal export commodities, have conspired to undermine their payment capacity . The result was a debt crisis of unprecedented severity, which inflicted untold hardships on the indebted countries and threatened their growth prospects-not to mention the integrity of the international credit system .

More important , the debt crisis has had a profound impact on the international sources of finance available to developing countries. Commercial bank lending has all but dried up not only for balance of payments support but also for project financing . Most commercial bank lending is presently undertaken in the context of adjustment programs supported by the International Monetary Fund . Outside this type of concerted or “involuntary” lending, most is limited to collateralized or guaranteed loans . Other sources of finance are also subject to severe constraints .The tight budgetary situation in most industrial countries has been a serious obstacle to expanding bilateral sources of finance whether concessional or nonconcessional .

4.7 Foreign Investment- Incentives , Restrictions and Guarantees

Ibrahim F. I . Shihata (1965) stated that most countries are at present competing to attract foreign investments . This is particularly true of developing countries and countries in Eastern Europe; yet few have succeeded in attracting useful investments of a magnitude that can materially influence growth rates . Most developing countries have resorted to what might be termed the incentives and restrictions game .

Mataloni , Raymond J , (1997) , argues that the operations of non-bank US multinational companies grew more rapidly in 1995 than they had grown, on average, since 1982 . According to preliminary estimates from BEA's annual survey of US direct investment abroad for 1995 , worldwide gross product of US MNCs grew 6% compared with an average annual increase of 4 % in 1982-1994 . The above-average growth in 1995 partly reflected continued economic growth in the US and in most foreign host countries. Gross product of all US MNC's grew 6 % in 1995, to \$ 1,821 billion .

Daimon, Sayuri, (1997), argues that the fast growing Asian economy will not only mean that telephone networks will further expand , but with more multinational companies establishing their business footholds in Asia , the demand for highly advanced multimedia services will also grow in the coming years globally .

Most incentives take the form of customs exemptions and tax benefits. Some countries (particularly those where macroeconomic conditions are not attractive) are extravagant in granting such exemptions instead of insuring taxation levels . Other countries go so far as to offer grants to foreign investors . Others provide preferential treatment in borrowing from local money markets or--what is much worse--ensure protection from competition either by locking markets or imposing excessive restrictions on the importation of comparable products .

While a few incentives may be necessary or useful in some cases , mainly because of competition with other countries , fiscal or similar incentives often represent an unjustified sacrifice by the country's treasury , since they rarely play an important part in investment decision making . The situation is exacerbated when incentives are coupled with numerous restrictions .

Even when restrictions are justified in theory , they may often result in unnecessary bureaucratic interference in investment affairs and an increase in the possibilities of delay and the potential for corruption. Furthermore, the coupling of excessive restrictions with overindulgent incentives sends mixed signals to potential investors that can confuse their evaluation of a government's intentions or of the overall investment environment .

Most restrictions can be explained by considerations that are easy enough to understand . The restrictions may be intended to improve the balance of payments position or benefit local industry (for example , performance requirements pertaining to minimum local component or to the exportation of a proportion of production) ; to train or increase the employment of national (for example, conditions limiting the employment of foreigners); to assign labor an important role in management matters or a share in profits ; to develop specific sectors or geographical areas ; or to develop local technology or limit the role of foreign companies in the economy (for example, requiring a commitment to a particular volume or proportion of local production) .

Many such restrictions, however ignore the integral nature of a country's economy, the interchange of benefits among its various components, and the response of such components, however disparate they may appear to be, to economic incentives resulting from appropriate overall policies. Certain restrictions may be based on erroneous ideas that give priority to attractive slogans over the needs of competition in the marketplace . Indeed, some restrictions may , inadvertently , have an adverse effect on the economy, for example, because of their possible effects on exchange rates .

Generally speaking, excessive restrictions discourage investors and lead them either to turn to other countries where their investments will not be subject to similar restrictions or to overcome such restrictions in other costly or objectionable ways (for example , through reaching agreement with the government officials responsible for approval or supervision) .

Meade and Peter (1997) argues that many factors including regulation, deregulation and the passing of the Telecommunications Act of 1996, have created an environment in the telecommunications industry where

two types of companies can survive : the very small , but opportunistic, niche players, and the very large , monolithic , multinational companies .

4.8 International Supervision

Dale (1988) points out the important issue of central banks as lenders-of-last-resort was still not clarified . He argues that there was a central banker's perception that the knowledge of certain rescue might encourage 'excessive risk taking by banks' . Additionally, there might well be a flight offshore to branches in perceived " softer " jurisdictions if the onshore central bank was seen to be willing to rescue banks with liquidity problems . In 1974 the governors of the central banks of the Group of Ten, plus Luxembourg and Switzerland, met in Basle to discuss bank supervision and the lender-of-last-resort. They issued the Basle Concordat which made several recommendations : (1) the supervision of foreign banks was the joint responsibility of both parent and host country ; (2) no single foreign bank should be able to evade supervision ; (3) the host country was responsible for bank liquidity ; and finally , (4) there should be increasing international cooperation between host and parent authorities. The table (5) represent the membership of the offshore group of banking supervisors .

Table (5)

Membership of the Offshore Group of Banking Supervisors

Aruba	Isle of Man
Bahrain	Lebanon
Barbados	Malta
Bermuda	Mauritius
Cayman Islands	Netherlands Antilles
Cyprus	Panama
Gibraltar	Singapore
Guernsey	Vanuatu
Hong Kong	

Source : The offshore Interface " Tax Havens in the Global Economy " Mark P. Hampton, (1996).

4.9 Effects of Developing Countries on FFIs

In managing global operations, FFIs must react to the demands and constraints placed on their behavior in each of the nations in which they operate. Chauduri (1988) argues that in the 1990s FFIs will have to be more flexible in accommodating the economic needs and aspirations of less-developed nations. Sethi (1987) feels that FFIs are currently challenged to create new roles for themselves in the less-developed countries that are becoming more sophisticated in their economic and social needs. The environments in foreign countries have the same dimensions (i.e., social, economic, political, etc.) as the environment at home, but they are different. The complexity of the problem evolves from the fact that the international environment is a sum of all foreign environments as well as the interactions and interrelationships between those foreign environments. Because of the complexity and differences, the management of a foreign subsidiary was, until recently, largely a local phenomenon.

The general manager of a subsidiary was fairly autonomous in how he or she managed the operation. Today, an MNC may easily coordinate and centralize the management of global operations. This gives an MNC the ability to respond to changing demands that may be placed on it from different foreign environments, in a focused and coordinated fashion. Thus, in terms of global strategic management, the effect of the local environment on an MNC is slowly decreasing. Its local management, however, is still under the influence of the local environment.

The environment affects the MNC in a variety of ways. The effects can be better understood if one can identify the factors in the environment that are affecting an MNC's behavior. The effects of the different dimensions of the local environment on an MNC are discussed below.

Most of the psychological aspects of a nation's culture affect business behavior and managerial activity, because business is an integral part of its host society (Al-Jilani 1985, Kolde 1985). Thus, the products of a business and the behavior of its employees and managers should conform to the requirements of the host society's culture. Deviations from it will isolate the company and its people, leading to its failure. One example of the effects of the local sociocultural environment on the MNC could be the effects of the local class-structure on staffing practices of the MNC. For example, in nations such as India, it may be inappropriate to place a

person of lower-class origin in a supervisory position over a person of higher-class origin .The political-legal environment may put many restrictions on the operations of an MNC . An example is the fact that Bahrain requires all FFIs investing in Bahrain to participate in joint-ventures with local partners . Another example is the war in the Arabian Gulf which resulted in decreased MNC investments in the region .

The business-economic environment is also a critical dimension . Many indicators or economic developments provide measures of market size for the products of the MNC . The financial-monetary environment, for example, may severely restrict an MNC to repatriate its profits in its own currency .

d Aquino, Thomas (1996) argues that in every part of the globe, governments are embracing liberal economic policies . Multinational companies are accelerating the exchange of innovations and people across borders . The developing world , long mired in stagnation and poverty, has seen enormous progress . For instance, 12 out of 15 countries ranked by real per capita GDP growth between 1990 and 1995 were developing or newly industrialized countries . But not all countries have been winners. Much of Africa, for example, and parts of the Middle East , Asia the Caribbean and Latin America are still saddled with serious economic, social, and political problems . But responsibility cannot rest only with individual governments and multilateral companies .

The technological environment , the fourth major dimension, may restrict the type of production process an MNC uses at that location . The MNC may have to use appropriate and different technologies at different locations . The effects of the local environment on an MNC, discussed under the four major dimensions of the environment , relate to almost all aspects of managerial decisions and behavior . The willingness of the MNC to conform or adapt is voluntary only to the extent that it may choose not to obey that state and leave the country . Those that stay, however, may still keep their company identity and style to an extent within the boundaries set forth in the mandates of the state .

Multinational companies entering China today face a myriad of cumbersome communications barriers that form China's Great Wall of marketing . The Great Wall of marketing has 3 distinct sections : cultural considerations , regional languages and strict government control. If not scaled carefully , the Great Wall can cause confusion and rejection among consumers and even stiff penalties from the government . Drobis , David , (1996), argues that the key elements for successfully dealing with the Great Wall are (1) conduct market research, (2) form strategic partnerships, (3) know the media landscape, (4) assess other communications vehicles (5) communicate quality, and (6) adopt an appropriate tone .

4.10 Effects of the FFI on Developing Countries

This section contains a discussion of the effects of FFIs on host countries, especially developing countries . This is the major problem that is investigated in this study . The literature on the effects of FFIs on developing countries can be grouped into two major categories , literature which claims that an FFIs does not benefit the host country and those which claim that it does . Dittrich (1982) groups them under the dependency approach and the new-conventional approach .

The dependency literature is generally anti-MNC in its orientation and looks upon the FFIs as a tool of capitalist imperialism .The neo-conventional literature emphasizes the benefits to a developing country from this relationship . Both of these approaches are inadequate in explaining what actually is a two-way relationship .

Jain and Puri (1981) argue that both the firm and the host country should benefit from the relationship . They also discuss problem areas that lead a host government to feel that more benefits accrue to the FFIs than the host country . The policy-makers from thirty-five developing countries in their sample believed that FFIs were nevertheless needed for economic development . These authors propose many ways in which developing countries can motivate FFIs to invest in their countries . As in every relationship, there are both benefits and costs for both parties . Chaudhuri (1988) says when FFIs get involved in production in less-developed countries they create benefits for both parties , and the actual share of the benefits accruing to each depends upon their relative bargaining strengths . For the host country, he lists the following benefits and costs of the MNC :

Benefits

1. International mobility of capital
2. International transfer of technology and human capital
3. Improved efficiency of global industry
4. Source of knowledge about global market forces
5. Economic development of the host nation .

Costs

1. The benefits of the FFIs efficiency go to the owners and executives of the FFIs, rather than the local employees and government .
2. Reduced sovereignty of the host nation
3. The FFI is able to avoid local constraints and has an unfair advantage over domestic business .
4. Reduce competition in the markets where they operate .

This list is not intended to encompass all benefits and costs of FFIs . There is a vast amount of literature available on the impact of FFIs on developing countries Baker, Ryans, and Howard (1988), states that, FFIs and nation state relationships always have the potential to be conflictual . According to a 1979 survey of the Fellows of the International Academy of Management . Newman (1979) there are six major sources of MNC nation-state conflict : (1) ownership, (2) local unemployment, (3) transfer of technology, (4) exploitation of natural resources, (5) bribery, and (6) foreign exchange shortages .

Sheley, Elizabeth (1996), concluded that the issue of cost control has grown in importance as more and more companies increase their overseas operations . A recent Organization Resources Counselors Inc . (ORC) survey of 351 multinational companies shows that on average , 31% of survey participants no longer provide foreign service premiums as incentive payments to employees moving from one continent or region to another . On the matter of benefits , Talie Bar-Nadav of ORC notes that the trend to have expatriate employees live as locals can sometimes skew pensions .

Some companies are now doing the tricky math necessary to prevent overseas assignments from creating a benefits penalty , while others depend on the employee's continued advancement to erase any deficit . Overseas relocation poses a particular problem for dual-career couples. More and more international transfers are being rejected because of the perceived damage that would be done to the career of the "trailing spouse " who may have trouble getting a work visa and job in the new location .

Sethi (1987) states that industrialization requires a specific culture which often is lacking in less-developed nations , and the vast majority of the technological errors (accidents like the Bhopal, India , case) occur due to human errors . Thus, the governments of less-developed nations should bear the responsibility to educate, prepare, and inform their people about new technology, and try to choose appropriate technologies .

In most cases, however, FFIs have been beneficial for the nations they invest in , especially in the case of economic development (Barent and Miller 1974, Travis and Crum 1984) . Freeman (1981) lists four ways in which FFIs benefit less-developed countries : (1) FFIs are a powerful force for peace , (2) FFIs are a powerful force in economic development, (3) FFIs own the technology needed by these nations , and (4) FFIs own the management capacity and marketing know-how to transform the natural resources of a nation into economic opportunities. Also , Meleka (1985) points out five benefits of FFIs for the host nation : (1) developing the national economy, (2) increasing the national employment, (3) training and management development , (4) strengthening domestic industries through joint ventures , and (5) establishing national peace and political stability .

There is a difference in opinion about FFIs . Proponents of FFIs claim that third-world host countries benefit in a number of ways from these institutions . Economic benefits are usually stressed . It is claimed that economic development in the less-developed countries benefit from FFIs investments Freeman (1981) and Meleka (1985), stated that, GNPs increase as a result of the influx of international capital, in turn improving local business conditions Freeman (1981), and that the transfer of modern technology and human skills into these countries enables the less-developed countries to better compete in the world economy (Barent and Miller 1976 , Meleka 1985) .

It is also argued by proponents of multinational enterprises that there are generally societal gains for host countries and that FFIs generally serve as agents for social and cultural change Freeman (1981) , Meleka (1985) . It is claimed that economic development generally improves life . Gains are made in health and housing . The public infrastructure and public services (transportation , water, sewer , communications, education, etc) are more available and the living standards generally improve Freeman (1981).

Advocates of FFIs further claim that these enterprises help in the political development of less-developed countries . They argue that improving economic conditions, especially the reduction of unemployment. Freeman (1981), Maleka (1985), helps create more stable political environments, which in turn permits governments to strengthen vital public institutions . Thus, it is reasoned, more stable governments are better able to meet vital public needs .

Other writers assert that FFIs do not benefit the host nations and do not advance their economic development. Ashour (1981) , Barnet and Miller 1976, Kumar (1980) , Newman (1979) . These critics point out the fact that many FFIs exploit the natural resources of their host countries and introduce capital-intensive technology in order to decrease unemployment (Kumar 1980, Meleka 1985) .

It is asserted that a less-developed host country's local businesses are not helped in this alliance , and that there is constant fear on the part of local businessmen that FFIs will dominate and control their economy Kumar (1980),Newman (1979) . These conditions destroy native entrepreneurial and small business activity as well as handicraft industries Kumar (1980) . The increased reliance on importation of industrial goods from the developed world increases the trade deficit and aggravates the country's balance of payments problem Barnet and Miller (1976), Meleka (1985).These critics argue that, overall, FFIs do not aid economic development Kumar (1980) .

Ashore (1981) discusses the self-serving practices of FFIs and what less-developed countries can do to prevent these . FFIs centralized organization structure, transfer pricing practices, human resource management practices (i.e., lack of training for local managers) are among the self-serving practices of FFIs discussed in this article . Ashore observes that some countries attempt to control FFIs through regulating their activity. Competitive bidding, fixed time-tables to transfer control to locals, production for export requirements, and investments without direct ownership (such as licensing, management contracts) are among the controls recommended .

Abdul-Gader, (1997) argues that with the emergence of an expanding interdependent global economy , information system (IS) strategists need to face the challenges of internationalization . A conceptual framework is developed that discusses multinational companies global policy formulation and several implications for IS management issues in Arab Gulf countries (AGC) . The objective is to illustrate the uniqueness of the business and IS problems confronting MNCs in AGC . Insights have been gained from examining the implications of the pertinent economic, sociopolitical, legal and cultural variables that affect MNC IS global policy formulation . Helping MNC IS executives / professionals to understand the differences between their own environment and the one in which they must operate can improve their IS functions in this region .

The most serious accusations are that FFIs tend to support entrenched oligarchies and prevent national development (Kumar 1980, Meleka 1985). Bribes and payments to the entrenched elites , coupled with an antisocial orientation make national political development almost impossible (Newman 1979) . According to these critics, less-developed countries are worse off as a result of FFIs (Barent and Miller 1976 , Kumar 1980) .

The transplanation of the research and development function and the transfer of technology from the home country to host countries through multinational companies make it difficult for the home country to keep its technological advantage, which must cause a change in competitiveness among countries and eventually a change in the countries' relative positions in the international political arena .

Suzuki, Norihiko (1996) suggests that the level-off of international competitiveness among the nations is the cause and effect of globalization of business activities by multinational companies . The reactive move by the nation states to this globalization of business activities is the formation of regional economic integration among the nation states .

Roche, William K, Geary, John (1996) , concluded that the impact of multinational companies on Irish industrial relations practice has long been the focus of scholarship and debate . The orienting question has generally been which effect has had the greater influence : the so-called “ country-of-operation ” or “ country-of-origin ” effect ? The general view among Irish industrial relations scholars has been that the host-country effect, once thought of as the predominate effect or pattern, has increasingly been overridden by “ country-of-origin” effects .

4.11 Positive Impacts of Hosting an FFI

4.11.1 Direct Positive Impacts

Mark Hampton (1996) states ,the local government may earn significant revenue from issuing bank licenses, registration fees , stamp duties and various taxes (both on bank profits, and on income of bank employees). The local operating expenditure of banks , plus staff salaries , may be of great significance for the small economy . For instance in the Bahamas in the late 1970s , bank expenditure accounted for an estimated 6.2 per cent of GNP (McCarthy,1979) . The FFI, especially if it is a functional center , may generate significant direct employment which for many small territories is scarce .

4.11.2 Indirect Positive Impacts

Regarding banking it can be argued that the jurisdiction’s own local financial system may improve and become more efficient due to increased competition from foreign banks and also due to the spread of good banking practice , the “ demonstration effect ” .

Hosting an FFI may give the small territory improved access to the international capital markets . Although it is not explicit , it may be that the informal links between senior FFI staff and the local government could lead to informal advice regarding international borrowing possibilities . Hosting an FFI would lead to the internationalization of the local economy as the FFI would attract foreign capital and generate

specialist knowledge and information . This would lead indirectly to increased foreign direct investment (FDI) in the territory “ helping local industry become internationally competitive ” .

Another positive impact is training . FFI firms often provide training opportunities for local people with encouragement from the host government . Initially such training may be of limited direct use in the local economy , although indirectly it may generate economic activity and expose locals to modern business practice and technology .

Finally , FFI activities may generate increased demand for products and services from allied sectors in the economy such as legal and accounting services, printing, construction, hotels , transport and telecommunications office equipment and so forth . Therefore, the direct impacts of contribution to GDP, government revenue and employment opportunities are clearly attractive to governments in small territories , but to gain the maximum benefit from the FFI the host would need to be aware of some of the reservations that apply .

4.12 Negative Impacts of Hosting an FFI

For convenience we will examine the direct and then indirect negative impacts on the host economy before turning to the positive impacts .

4.12.1 Direct Negative Impacts

Mark P. Hampton (1996), stated that, many lower income small territories have infrastructure so it could prove costly to upgrade telephone networks and ensure reliable power supplies to meet the standards demanded by international financial capital . If a territory is very remote it may also be costly to set up the necessary telecommunications links . However, if it already has a significant tourist sector, then this cost would be lower as the infrastructure would be already in place to serve the tourists . A second negative impact is the cost of regulation and supervision of the FFI . At present new and potential entrants may incur substantial start-up costs of the necessary regulation to attract legitimate business . The establishment of a regulatory authority in the jurisdiction could be expensive, especially if it needs expatriate staff prior to locals becoming skilled . If local people are to gain from the FFI then education and training may be needed .

Initially the FFI, may attract an inflow of expatriates , and so it may cost the territory to educate locals to a sufficient level to be employable in the offshore center .

4.12.2 Indirect Negative Impacts

First , if a jurisdiction encourages offshore finance by relaxing restrictions on foreign exchange and generally opening up its bank system, local residents may take advantage of the offshore banks resulting in capital flight, or leakage into other currencies which could affect local monetary policy . One way to minimize this would be to rigidly separate offshore and domestic banking, although this could be costly to enforce. Secondly, a successful FFI attracting many large , foreign-owned banks could see the crowding out of locally-owned banks as a result of this foreign penetration. Thirdly, if the territory sets low direct tax rates and offers other tax minimizing possibilities such as offshore companies or trusts, then its own residents may also be tempted to copy the outside users of the FFI and evade their taxes . This could result in a substantial revenue loss, necessitating new legislation to attempt to prevent it , and this may merely lead to local residents transferring their funds to rival FFIs, losing both their tax revenue and the business for their own center .

Fourthly , in terms of pressure on local resources , a functional FFI will require both office space and housing for staff . A potential FFI may lack suitable office buildings causing pressure on existing sites and the possibility of large rent increases in the central business district . Other local resources such as recreational areas , water , the transport system and parking facilities may also come under pressure if the expanding FFI requires an influx of labor from outside the small territory . Finally, in addition to the economics of hosting an FFI , there are also political and ethical costs to be considered . The opening up of a small territory to influence of powerful external agents such as international banks, financiers and big business may bring many opportunities for corruption and fraud .

The successful OFC may attract capital flight to its banks from nearby less developed countries (LDCs) . The Caribbean example where funds flowed into OFC bank accounts from Latin American LDCs, often syphoned off from aid flows by the local elite's . The OFC gains at the

other country's expense and in a sense it is a zero sum game between LDCs. In addition, the process could operate in reverse as the high mobility of flight capital could make an OFC vulnerable to the rapid loss of its bank deposits if conditions changed significantly in the home country and the flight capital was attracted back .

CHAPTER 5

METHODOLOGY

Methodology

This chapter provides the methodological aspects of the study . The design of the study, the sample, the variables, the hypotheses, instrumentation, and data analysis are discussed in the following sections.

5.1 Design of the Study

Survey research is appropriate for studies of perceptions . The objective in this type of research is to learn more about a phenomenon and to develop theoretical models and hypotheses for further research and testing . The objective of this study is expected to identify the various aspects of the Bahrain Economy , Business, and Culture environment that are effected by the presence of FFIs and to provide the government of the state of Bahrain with valuable inputs for making key policy decisions. This field study is based on a survey of the perceptions of 61 managers in Bahrain, regarding the effects of Foreign Financial Institutions on the environment of that country . A stratified 2 x 3 block design is used for this study . The sampling technique is explained in the next section .

Block designs are useful when it is important to minimize the variance within the blocks and maximize the variance between the blocks . Emory (1980) mentions that when the sample size is small it may be too risky to depend upon random assignment alone to assure equivalency . The reason for blocking in this study is to see if various groups in the sample have different perceptions on the effects of FFIs .

5.2 The Sample

The sample for this study is comprised of managers in Bahrain . The sampling reflects the 2 x 3 block design which is based on the nationality of the subjects and whether they work in the private or public sectors . The 2 x 3 block design in this study is presented in Table (6) as follows :

Table (6)

THE SAMPLE

Sector	Bahraini	Non-Bahraini	Total
Financial	20	12	32
Non-financial	21	8	29
Total	41	20	61

The sample consists of 61 managers in Bahrain . The sampling was stratified to ensure cell sizes of 20 . Half of the subjects were from the public sector, and half were from private companies in Bahrain . Two groups were represented in the sample ; managers of financial institution (MFI) and managers of non-financial institution (MNFI), from companies and government agencies that volunteered to participate in the study . Contacts were made and requests were extended for participants in Bahrain from June to August of 1997 .

5.3 The Study Questionnaires

This section includes the research questions for this study . To claim that FFIs are solely responsible for change in Bahrain , or to claim that FFIs had no effect on change in Bahrain would be equally wrong . FFIs did have an effect , but how much effect is a difficult question which is outside the scope of this study . The major impact that FFIs have had on change in Bahrain has been in the economy. Multinational oil companies developed the oil fields, and later the oil, gas, and petrochemical industries of Bahrain . The development and success of the Bahrain economy is due to its ability in using the oil revenues . This led to social , cultural, and educational development .

The multinationals had the following effects on development in Bahrain :

- 1 . Economic development in oil , non-oil , construction, banking, investment , and financial services industries

- 2 . International trade
- 3 . Building of infrastructure (roads, water , power, etc .)
- 4 . Increased government revenues through taxes
- 5 . Development of local entrepreneurs (through joint venture requirements for FFIs)
- 6 . Development of human-resources and local managers through staff- development activities of FFIs

In order to investigate the perceptions on the role of FFIs in change in Bahrain, this study is structured according to the environmental dimensions discussed later in this chapter . A questionnaire was used containing items relating to each of the five major dimensions of the environment. This study investigates Bahraini managers perceptions of perceived impact of the presence of FFIs on Bahrain's economy .

In most cases questionnaires were distributed and collected by the researcher . In some cases top managers of the participating organizations helped in distribution and collection of questionnaires . Very few were returned by mail . Confidentiality of the responses was emphasized in all cases . Top managers who collected questionnaires used closed envelopes. The response rate was 61 percent . Although 100 questionnaires were distributed, only 61 questionnaires were completed and returned to the researcher .

The questionnaire used for this study was developed from a review of the literature on Foreign Financial Institutions in developing countries . The items included in the questionnaire are grouped under two sections . The first section is comprised of demographic items related to the personal characteristics of the subjects . The second section includes questions on the perceptions of the subjects as to the effects of FFIs on the environment in Bahrain . The dimensions of the environment are grouped under five major categories in the questionnaire : social-cultural, political-legal, business-economic , company specific and technological dimensions .

5.4 Variables

Other than the demographic variables , the variables included in the study are based on the dimensions of the environment discussed earlier . The dimensions of the environment are grouped under major categories : social-cultural, political-legal, business-economic, company specific and technological as in Table (7) .

The instrument , provided in the Appendix , consists of two parts . The first part includes ten questions related to the demographic characteristics of the sample . The second section includes fifty-five items related to five major dimensions of the environment in Bahrain . These major dimensions are the political-legal, economic, technological, specific-company, and social-cultural environments . The last question is an open-ended question at the end of the instrument concerning FFIs effect on Bahrain .

Table (7)

**ENVIRONMENTAL DIMENSIONS
COVERD IN THE STUDY QUESTIONNAIRE**

Business-Economic Environment
Economic development, cost of living, Income distribution, Oil industry, Manufacturing, Banking and Finance, International trade, Transportation, Trade with home country, Management practices, Working condition for employees, Employment practices, Employees policy, Training of employees for managerial positions, Working productivity, and Bahrain's position as regional financial center .
Political-Legal Environment
Government system, Legal system (the law), Judicial system (the court), Independence of governmental decision-making, and government services .
Technology Environment
Introduction of computers, Introduction of other types of technology, Introduction of agricultural technology, Financial support for research, Communication, and cost of technology .
Company-Specific Environment
Company's advertising cost, Company's interest costs, Company's wages and salaries, Company's bad debts, Company's fixed costs, Interest income, Non-interest income, Market share, Employees Productivity, Long-term plans, Need for merger/ acquisition, Quality of services offered, and range of services offered .
Social-Cultural Environment
Educational system in general, Number of educated people, Quality of education, Family relationships, Practices of religion, Social values, Bahrain culture and traditions, Use and values of foreign languages, Preservation of Arabic as the spoken language, Change in the economic class structure, and role of women in the Bahrain society .

5.5 Hypotheses

The variables in table (7) relate to the dimensions of the environment in Bahrain . The main interest of this study is the perceptions of managers regarding change in this environment, and the extent to which it is affected by the activities of FFIs . Measurement of the actual change in the environment is beyond the scope of this study. The purpose of this study is to investigate the perceptions of managers in Bahrain about these changes . Thus, the hypotheses of this study are related to the subjects' perceptions regarding the role of the FFIs in change in Bahrain's economy. The hypotheses deal with variables used in table (7) of the environmental dimensions . The relations between the individual characteristics of the subjects in the sample and the subjects perceptions about the different role of FFI on dimensions of the environment form the basis for formulating the hypotheses of this study . The hypotheses are listed below . The following hypotheses are related to the key aspects investigated in the study.

Hypothesis 1 : There are no significant differences between the two managers groups . Managers of financial institution (MFI) and managers of non-financial institution (MNFI) regarding the perceived impact of FFI on Business and Economic factors which include Economic development, cost of living, Income distribution, Oil industry, Manufacturing, Banking and Finance, International trade, Transportation, Trade with home country, Management practices, Working condition for employees, Employment practices, Employees policy, Training of employees for managerial positions, Working productivity, and Bahrain's position as regional financial center .

Hypothesis 2 : There are no significant differences between the two (MFI) and (MNFI) groups regarding the perceived impact of FFI on Political-legal factors which include Government system, Legal system (the law), Judicial system (the court), Independence of governmental decision-making, and government services .

Hypothesis 3 : There are no significant differences between the two (MFI) and (MNFI) groups regarding the perceived impact of FFI on technology factors which include Introduction of computers, Introduction of other types of technology, Introduction of agricultural technology, Financial support for research, Communication, and cost of technology .

Hypothesis 4 : There are no significant differences between the two managers groups regarding the perceived impact of FFI on company-specific factors which include Company's advertising cost, Company's interest costs, Company's wages and salaries, Company's bad debts, Company's fixed costs, Interest income, Non-interest income, Market share, Employees Productivity, Long-term plans, Need for merger/acquisition, Quality of services offered, and range of services offered .

Hypothesis 5 : There are no significant differences between the two managers groups (Financial and non-financial) regarding the perceived impact of FFIs on social - cultural factors which include Educational system in general, Number of educated people, Quality of education, Family relationships, Practices of religion, Social values, Bahrain culture and traditions, Use and values of foreign languages, Preservation of Arabic as the spoken language, Change in the economic class structure, and role of women in the Bahrain society .

5.6 Data Analysis

Two types of data were collected for this study , nominal and ordinal . Section I of the questionnaire includes demographic items which are measured primarily with nominal or ordinal scales . Section II of the questionnaire consists of questions on the perceptions of subjects on FFI's effects on Bahrain . A five-items Likert-type scale is used as follows :

1 = Perceive very low effect (mostly negative) , 2 = Perceive low effect (slightly negative) , 3 = Moderate effect , 4 = Perceive strong positive effect , 5 = Perceive very strong positive effect .

This Likert-type scale provides ordinal measures of the subjects' perceptions . At the end of the questionnaire there is an open-ended question designed to collect qualitative data that were analyzed accordingly . The statistics in the following table (8) were used in this study to test a variety of hypotheses which required different kinds of tests . The explanations and rationale are presented below .

Table (8)

STATISTICS USED

Procedure	Purpose
Frequencies	 Descriptive statistics .
t-Test	 Hypothesis testing

In this study, the literature review suggests five major dimensions in the environment . The frequencies procedure used in this study provided the mean, standard deviation, minimum-maximum, and cases , missing cases, variable values , frequencies .

The t-test was used to test for significance in the differences between the two groups of a particular variable .

CHAPTER 6

ANALYSIS& RESULTS

Results & Analysis

Results of the study are presented in this chapter . Sample characteristics, the distribution of managers perceptions, differences among groups, variables affecting managers perceptions, and other findings are also discussed in this chapter .

6.1 Sample characteristics

The sample size was 61 managers participated in the study . The total of managers were from the public sector , private sector and government ministries. Participating managers were employed by companies in education, banking, investment, pension, military, insurance, construction, oil and gas, and other industries .

6.2 Profile analysis (Overall findings)

In this section the descriptive statistics on the perceptions of managers on the perceived impacts of FFIs on Bahrain's economy are presented . The scores are on a five-point Likert-type scale, with 3 being the neutral effect perception, 1 perceive very low effect (mostly negative) and 2 perceive low effect (slightly negative) and 3 moderate effect and 4 perceive strong positive effect 5 perceive very strong positive effect . Generally the managers perceive that FFIs have positive effects on Bahrain economy . The most positive effects of the FFIs were perceived to be on Bahrain position as a regional financial center and the development of the economy (banking and finance, trade, management, etc .) in Bahrain. A negative effect of FFIs were perceived by managers perceptions on the cultural environment of Bahrain .

**OVERALL MEANS PERCEPTION SCORES
FOR THE STUDY VARIABLES**

Environment	Means	STDEV
BUSINESS-ECONOMIC		
Economic development	4.59	0.63
Cost of living	2.87	0.46
Income distribution	3.57	0.50
Banking and finance	4.56	0.70
International trade	4.33	0.58
Trade with home country	3.78	0.52
Management practices	4.23	0.51
Employment policies	2.67	0.50
Training of employees	4.00	0.60
Bahrain's position as regional financial center	4.69	0.68
POLITICAL-LEGAL		
Government decision-making	3.28	0.50
Government services	3.85	0.51
TECHNOLOGY		
Introduction of computer	4.51	0.59
Introduction of other type of technology	4.44	0.58
Financial support for research	3.52	0.55
Communications	4.49	0.59
Cost of technology	3.71	0.41
COMPANY-SPECIFIC		
Company advertising	3.11	0.64
Company interest cost	3.18	0.59
Company wages & salaries	3.31	0.51
Company bad debt	3.05	0.75
Company fixed cost	3.02	0.57
Interest income	3.46	0.53
Non-interest income	3.25	0.58
Market share	3.40	0.44
SOCIAL-CULTURAL		
Number of educated people	4.24	0.53
Social values	2.59	0.51
Bahrain culture and tradition	2.83	0.46
Change in the economic class structure	3.80	0.54

6.2.1 Business-Economic Dimensions

Table (9) gives a detailed analysis of managers' perceptions of the perceived impact of the FFIs on the Bahrain's economy. The first environment was the Business & Economy in general. Regarding the economic development in Bahrain, the outlook is that Bahrain's economic performance was generally satisfactory with economic growth and low inflation and overall balance of payments recording a surplus and a visible trade account in surplus. That's a summary of the perception scores presented by the overall means of 4.59, which explains the strong positive perception of the group of managers. Economic development can be defined as the process by which the living standards of the people who live in country are raised. That process includes the development of physical and human infrastructure, economic growth, distribution of resources, and the maturation of society. In general the economic development improves life. Gains are made in health and housing. The public infrastructure and public services (transpiration, water, sewer, communications, education, etc.) are more available and living standards improve. Perception scores related to these dimensions are presented in table (9).

The cost of living element shows a slight negative perception with overall means of 2.87. The negative impact was explained by the managers, that the FFIs have had a slight negative impact on public services like education, rents, health care, and other services in the future and this impact can be found in the long-term. Income distribution element has a positive impact with overall means of 3.57. The managers explain this impact, that the presence of the FFI will change the income for those people who received low income, by the availability of several jobs presented by FFIs.

Banking and Finance was the third element in the Business & Economic environment. The overall means was 4.56 which explains the strong positive impact of FFIs on this element. The impact is indicative of Bahrain's continuing ability to attract a range of high quality banks and other financial institutions and of its standing and reputation internationally as a major financial center.

The presence of the FFIs in Bahrain gives more opportunities for the local businessman in Bahrain to conduct business abroad through the financial facilities provided, which increased international trade, and this can be seen through the overall mean of the managers of 4.33, which indicates a strong positive impact. While the overall means of the managers' perceptions regarding the trade with the home country received a positive impact indicated by 3.78, this can be explained that the trade with FFIs' home country is less if we compare it with international trade, because the home country technology and experiences will be brought with them to the host country, and this will reduce the business between the host and the home country.

The transfer of technology from the home country to host countries through multinational companies makes it difficult for the home country to keep its technological advantage, which must cause a change in competitiveness among countries and eventually a change in the countries' relative positions in the international trade arena. Bahrain retained importance as a trade center, helped by its strategic location and harbor facilities. The growth of foreign trade encouraged expansion of the merchant sector which, by way of duties and tariffs on imports, contributed the major part of the national budget.

The presence of FFIs in Bahrain has a major impact on management practices, due to the FFIs' emphasis on contact with employees as a form of internal marketing and as a way of enabling employees to identify with business needs and achieve improvements in customer service. The overall means for this variable was 4.23, which indicates a strong positive impact of FFI on many practices of management.

The perception regarding the employment policy was low; the overall mean was 2.67. FFIs' inquiries conducted on a number of respondents revealed that FFIs discriminate between the expatriate and Bahraini employees, in relations, services, accommodations, education, wages and other facilities. The managers feel that FFIs discriminate against Bahrainis in hiring decisions and management development. They also prefer the foreigners to Bahrainis in different positions.

Most of the managers agree that the FFIs have a strong positive impact on the training of Bahrainis and this is indicated by the overall mean of 4.00 , since most FFIs often provide training opportunities for local people with encouragement from the host Government . Initially such training may be of limited use in the local economy , although indirectly it may generate economic activity and expose locals to modern business practice and technology , and to be qualified and educated to cope with the development and technology revolution , and particularly to occupy their own vacancies .

The last element in the Business & economic environment is Bahrain's position as a regional financial center . The overall means is 4.69 , which is the highest score in this study regarding the impact of the presence of the FFIs in Bahrain . The two managers group indicate that there is no differences between them in concluding that there is a very strong positive impact on this sub-dimension . Bahrain offered many benefits to FFIs, namely freedom from exchange controls, availability of a developed infrastructure and of a convenient time zone , as well as a stable political-legal situation .In exchange, Bahrain expected commensurate advantages, including employment opportunities for Bahrainis and income through the provision of goods and services made available to FFIs and to their staff. Consequently, the growth of FFI business contributed to an increase in Bahrain's gross domestic product, and the presence of FFIs is likely to contribute positively in Bahrain's position as a regional financial center .

This is a very important element in this study , as well as to Bahrain . One of the principal diversification measures was to permit the development of Bahrain as a center for international financial activity . The decision in 1975 to allow FFIs banking operations made it possible for Bahrain to become the highest volume financial center in the Arabian Peninsular region . The rational behind the creation of Offshore Banking Units (OBUs) was that the world needed a mechanism to reinvest the surplus liquidity in the region. Given the post-1973 flow of wealth to the Arab world and the need to efficiently invest these resources , it seemed natural that a new financial center be created in an Arab country that was willing to permit international banks to carry on international banking business without local participation requirements . This was exactly the financial environment that Bahrain offered to the banking world .

Now Bahrain is a member of a number of international and regional financial organizations . It has become a member of the International Monetary Fund (IMF) . Bahrain is also represented on the Board of Governors of the Fund , and has become a member of the World Bank and its affiliates simultaneously with her membership in the IMF . Also Bahrain has become a member of the Arab Monetary Fund (AMF) , the Arab Bank for Economic Development in Africa, the Intra-Arab Investment Guarantee Corporation , the Islamic Development Bank (IDB) the Arab Fund for Economic and Social Development (Arab Fund), and the Multilateral Investment Guarantee Agency (MIGA) .

6.2.2 Political-Legal Dimensions

Regarding the Political-legal environment , the managers perception was slightly positive with overall means of 3.28 for the Government decision-making. The (MFI) have look different from (MNFI) regarding this element . The financial managers understand the impact of FFI on the Government decision-making . The figures of financial statements of those foreign institutions shows how much capital sharing in the economy of Bahrain, and how many workers are their, and how much did they share the market projects . FFIs must have at least an opinion in much decision-making done by the government, particularly the market decisions .

For the Government services element, managers also having different results. Although the impact of FFIs have a positive impact with overall means of 3.85 , the financial managers argues that the Government does this service to attract FFIs to Bahrain . By providing such services like water supply, electricity, roads, airport, communications, health-care, education and other services . FFIs will find a basis for them to start business beside security .

6.2.3 Technology Dimensions

Technology is the product design , production techniques and managerial systems needed to carry out the production process . Transferring it is moving it from one set of users to another in a way that enables the transferee to absorb it and adopt it to the local conditions . FFIs play a major role in the transfer process . The transfer of technology aims to reduce the country's dependence on oil and to utilize national resources more efficiently .

Technology was mentioned as a factor of change in Bahrain . The governments of less developed nations should bear the responsibility to educate, prepare, and inform their people about new technology, and try to choose appropriate technology . One can see the fast-paced life in Bahrain which technology has caused . The overall means of managers perception on this environment was positive , that the FFIs have a strong positive impact on Bahrain's economy regarding the introduction of computers, which is indicated by the overall means of 4.51, showing that FFIs transfer computer technology to Bahrain in all sectors . A similar high managers perception is reported for the introduction of technology is indicated by the perception high score of 4.44 . This finding is consistent with the findings reported by Hanson (1994) who argues that most multinational companies develop their core technology in their country of origin .

Regarding the financial support for research element, the manager groups have a different opinion, but the overall means was 3.53 , which indicate that the FFIs have a positive impact on this element. Hanson (1994) argues that, investments in research and development by large multinational companies have a direct impact on the competitiveness and international trade of nations . FFIs will support research in Bahrain, as the financial manager concluded . The concept for this conclusion is that the advantage is to improve responsiveness and sensitivity to local needs, faster development time, and increased credibility of the local sales program, and in general the function of the research is to review and provide statistical information on, and to conduct studies related to, developments in Bahrain's financial sector .

The other element of technology is the communication , the overall means is 4.49 , which indicates that the FFIs have a strong positive impact on this element . All FFIs have their own communication abroad , and most of their operations rely heavily on the use of communications equipment to contact worldwide. This needs keep demand on using such communications, in which the local, and private institutions use this development technological communications . The strong positive impact of the presence of FFIs on communication in Bahrain will benefit other sectors in Bahrain such as trade, non-financial services and manufacturing .

Regarding the last element of technology environment is the cost of technology, The overall means is 3.71 , which indicates that FFIs have a positive impact on this element . The technological developments will cost the nation , and this cost can be found at the same time or in the future according to the technological changes . The entrance of the FFIs to Bahrain caused changes in the technology that have been used . And these changes must be paid for to follow technological development . The transplantation of the transfer of technology from the home country to host countries through multinational companies make it difficult for the host country to keep its technological advantage .

6.2.4 Company-Specific Dimensions

A - Costs

The perceptions of manager regarding the company advertising element is positive. The overall mean is 3.11 , which indicates a slight positive impact on this element . The (MFI) saw that the presence of FFIs increase competition in the market where they operate . Local companies have to increase their competition to compete locally and abroad by using advertisements , and that will increase the cost for the local company regarding the presence of the FFIs in Bahrain.

Regarding the company interest costs element, the two managers group have different perceptions on this element . The overall means is 3.18, which indicates a slight positive impact on the company interest cost . The (MFI) group found that FFIs shared the local financial institution in providing loans and other financial facilities to the local market , and this will increase the interest cost for the local financial institution due to the sharing of the FFIs in the market .The positive impact of the presence of the FFIs on the company interest cost in Bahrain will benefit other sectors in Bahrain like trade, non-financial services and manufacturing .

The perception of managers regarding the company wages and salaries element are positive, and the overall means is 3.31, which indicates a slight positive impact of the presence of FFI on this element . The researchers found that FFIs and the host country should benefit from the relationship, there are both benefit and costs for both parties .

FFIs motivate their employees with good salaries and wages, which will force the local institution to follow their procedures to provide such benefit . Otherwise local employees will shift to the FFIs to benefit from the offered provided .

Regarding the perceived impact of the presence of FFIs on bad debt , the results presented in table (9) indicate that the overall mean is moderate impact of the presence of FFIs on this element . The financial managers stated that local companies can cover or overcome their bad debts by using the facilities or funds available in the markets regarding the presence of FFIs.

The last element in the costs of company-specific environment is the company fixed cost . The overall means for this element is moderate 3.0. The financial managers saw that fixed cost become more in the presence of the FFIs, such cost like depreciation, assets, operation cost, permanent staff cost and others .

B - Revenues

The overall mean of the two managers groups for the company interest income element was 3.46 , which indicates that there is a positive impact on this company interest income . Both of the manager groups indicate that the interest income of the local companies is affected by the presence of the FFIs , due to the share of FFIs with local financial institution in providing loans and other financial facilities to the customers . This share will decrease the interest income of the local financial institution in Bahrain .The Non-interest income element has the same impact regarding the presence of FFIs . The overall mean is 3.25 , which indicates a positive impact on this element . Both of the manager groups indicate that the impact of the presence of the FFIs will increase the investments and attract businessmen to the country . This will benefit the whole country, and one of the beneficial sectors is the non-financial business .

For the market share variable, the overall means was 3.39, which indicates that there is a positive impact on this variable . The two manager groups indicated that the presence of FFIs will share the market in business in Bahrain . They explain that, as the FFIs share the host country's market, there will be more sharing in products as well as in advertising and employment, and increase the competition in the market for non-financial institutions in Bahrain .

6.2.5 Social-Cultural Dimensions

The first element in the social-cultural environment is the number of educated people .The overall means was found to be 4.24, and the perception of the managers group indicated a strong positive impact on this element regarding the presence of the FFIs . Meleka (1985) argued that according to proponents of multinational companies there are generally societal gains for host countries and that FFIs generally serve as agents for social and cultural change . Caudron (1997) stated that multinational companies must be able to critically assess the skills competencies needed for success in the cross-cultural business environment .

FFIs in Bahrain normally demand highly qualified executives willing and able to serve . However, the supply of those people is limited , because managers and other educated people are needed for various reasons , such as to be familiar with head office policies , to establish a new operation successfully, and to fulfill a need for professional knowledge . Persons selected to fill positions should be proficient in the language and have expertise relevant to the assignment . These needs force the country to educate people to be able to meet these requirements with the encouragement of FFIs . Government sends people abroad, either as students ,tourists , or businessmen to be educated in general .

The Social values element was found to be the most negatively affected by the presence of the FFIs in Bahrain . While there are differences between the managers groups , the overall means is 2.59, which indicates a slight negative impact . Some in the managers group have seen that changes of social values will come from the influx of foreign nationals, that expatriates bring with them their own cultures , religions, customs, languages , and behavior patterns . Bahrain society will be exposed to the foreign culture, values and attitudes which often clash with the traditions and values of Bahrain . Other managers indicated their opinion

that the FFIs have positive effects on the social values, that foreigners bring with them their own language which helps people to learn and understand foreigner people, they bring with them the competency, hard working, high motivation, commitment and loyalty to their company .

For the Bahrain culture element, the overall means was found to be 2.83 , which indicates a slight negative impact caused by the FFIs . And the managers group perception was different ; some managers believed FFIs influence the cultural environment, while other managers saw that the presence of FFIs bring with them the culture of the world .

The last element in the social-cultural environment is the change in the economic class structure ; the overall means is 3.80 , which indicates a positive impact caused by the presence of FFIs . The two managers groups are different in their opinions . The financial managers group saw that the Bahrain economy is now in a period of consolidation, with the government exploring ways to expand and diversify its economic base. Industrial diversification has created a range of downstream business opportunities and has generated infrastructure support. The other manager groups saw that there is no impact caused by the FFIs, and the presence of FFIs is likely to contribute positively to the implementation of this economic policies .

6.3 Statistical Analysis

6.3.1 General Perception of the Managers group

When the overall perception scores of the managers were ranked, as presented in Table (10), the least favorable perceptions were in the social-cultural dimension and the most favorable perceptions were in the Technology and Business-Economic dimension. Cultural environment received the least favorable, and the only negative (scores less than 3.00) scores. Table (11) presented these environment in more detail.

Table (10)

Managers Perception regarding the Potential Impact of FFI on the major Environment Dimension (summary)

Environment	Financial	Non-Financial	Total	Rank
Mean Score				
Technology	4.19	4.01	4.10	1
Business-Economics	3.90	4.06	3.98	2
Political-Legal	3.57	3.48	3.53	3
Company-specific	3.56	3.33	3.48	4
Social-cultural	3.51	3.27	3.39	5

Financial managers had the more favorable perceptions and the non-financial managers had the less favorable perceptions. Financial managers found that the presence of the FFI is a source of competition for them in the market. Bahraini public managers perceived more favorable perception than the others managers due to the fact that they are more of aware of the realities of Bahrain society and more experience in their country. Public sectors looking for the impact as same as the governments look, while the private sectors looking to the impact from the profits dimensions.

Table (11)

**Managers Perception regarding the Potential Impact of FFIs on major
Environment Dimensions**

Environment	Financial	Non-financial	Total
Business-economic	3.90	4.06	3.98
economy	3.65	3.99	3.82
industries	3.94	4.20	4.07
management practices	3.86	3.88	3.87
Bahrain as R . F . C .	4.63	4.62	4.63
Political legal	3.57	3.48	3.53
Technology	4.19	4.01	4.10
Company-specific	3.56	3.33	3.45
cost	3.26	2.80	3.03
revenue	3.34	3.34	3.34
market-share	3.50	3.38	3.44
long-term plan	3.97	3.97	3.97
Social-cultural	3.51	3.27	3.39
educational	4.17	4.23	4.19
cultural	3.00	2.76	2.88
social-structure	3.75	3.94	3.85
Mean	3.74	3.70	3.72
Total stdev	0.38	0.54	0.45

6.3.2 Differences between Groups (Hypothesis Tests)

This section focuses on tests of the hypothesis. Statistical tests for differences between groups are presented. T-test statistic compares differences between groups means . The t-tests will use pooled variance estimates and 2-tail probabilities . Results of the t-test are presented in table (12) .

Hypothesis 1 stated that there are no significant differences between the two managers groups. Managers of financial institution (MFI) and managers of non-financial institutions (MNFI) regarding the perceived impact of FFI on Business & Economic factors including economic development, cost of living, income distribution, banking and finance, international trade, management practices, employment policies, training of employees Bahrain's position as regional financial center .

Regarding the perceived impact of FFIs on the economic development in Bahrain . The t - test indicates no significant difference between the two manager groups as indicated by the t value of 0.8199 . The overall means for this element is 4.62, which indicates a strong positive effect. Based on the results of the T test, the null hypothesis is accepted . In most cases, FFIs have been beneficial for the nations they invest in, especially in the case of economic development (Barnet and Miller 1974), which supports the hypothesis . Freeman (1981) declares that FFIs are a powerful force in economic development, through marketing and knowing how to transform the natural resources of a nation into economic opportunities .

Table (12)
Differences Between Groups
T -test Statistics Table

Environments	T-value
BUSINESS-ECONOMIC	
Economic development	0.81991
Cost of living	8.65699 *
Income distribution	0.04430
Banking and finance	1.16919
International trade	2.40778 *
Trade with home country	3.54591 *
Management practices	0.25985
Employment policies	2.40998 *
Training of employees	1.04741
Bahrain's position as regional financial center	0.02767
POLITICAL-LEGAL	
Government decision-making	3.64064 *
Government services	2.78454 *
TECHNOLOGY	
Introduction of computer	0.12513
Introduction of other type of technology	0.95346
Financial support for research	5.37368 *
Communications	0.12141
Cost of technology	0.93858
COMPANY-SPECIFIC	
Company advertising	2.37052 *
Company interest cost	2.32902 *
Company wages & salaries	2.55073 *
Company bad debt	3.65927 *
Company fixed cost	6.05034 *
Interest income	0.41637
Non-interest income	0.40248
Market share	1.26962
SOCIAL-CULTURAL	
Number of educated people	1.00355
Social values	2.55510 *
Bahrain culture and tradition	2.44831 *
Change in the economic class structure	3.53583 *
* significant at 0.05	

The impact on development in Bahrain is that process which includes the development of physical and human infrastructure, economic growth, distribution of resources, and the maturation of society . In general the economic development improves the public infrastructure and public services, as well as the standard of life . Both groups have the same view of the presence of FFI has a positive impact . While there is a significant difference between the two groups regarding the perceived impacts of FFIs on the cost of living element , indicated by the t value of 8.6569 , which indicates that there is no effect on the cost of living in Bahrain, Based on the results of the T test, the null hypothesis is rejected .

The mean for this variable is 3.05 . The (MFI) group accounts the cost as it will be found in future, in the long term , for example, rents, education, health, other services , etc . These services will be more costly in the future since demand on rent of houses by foreigners will increase, and this will be more costly . Also the education fees will cost more because of the foreign children's demands to be educated . The same is also true for the health sectors and other services . The (MNFI) group perceive the impact of the presence of FFI on cost of living in Bahrain to be a moderate one as indicated by their score of 3.05 .

Also there is no significant difference between the two groups of managers regarding the element income distribution, which is indicated by the very small t-value of 0.0443 . The overall means for this variable is 3.72 which indicates a positive impact . Both groups have the similar perceptions regarding the effect of the FFIs on this variable .

The Banking and finance element shows no significant difference between the two manager groups regarding the perceived impact of FFIs on this element, as indicated by the t - value of 1.1692 . The overall means for this variable is 4.63 . Based on the results of the T test, the null hypothesis is accepted . This is a very important variable for Bahrain, and that shows FFIs play an important role in the economy of Bahrain . We find that the two manager groups have the same attitude regarding the perceived impact of FFI on banking business in Bahrain . The presence of the FFIs in Bahrain increased the number of banks and other financial institution. This sector is more beneficial for Bahrain than other resources in the future, since oil will no longer present in the coming 50 years . Bahrain must now concentrate on being a regional financial center .

The other element included in the Economic & Business environment is international trade ; the t- test indicates a significant difference between the two manager groups regarding this element , as indicated by the t -value of 2.4078 . Based on the results of the T test, the null hypothesis is rejected . The (MFI) group found that the presence of the FFI in the country increase the international trade. The uses of fund and other facilities provided by the presence of FFIs will increase the trade with abroad . Local institution and businessman will use this facilities in their trading , which indicate a positive impact regarding the presence of the FFIs on Bahrain's economy . While the (MNFI) group saw that their is no impact .

Regarding the trade with home country element in the Economic & Business environment . The t- test indicates a significant difference between the two manager groups regarding the perceived impacts of FFIs on the trade with home country . The t- value is 3.5459 . Based on the results of the T test , the null hypothesis is rejected . Both manager groups argue that when FFIs arrive in a country , they transfer their home technology and development .

As for the perceived impact of FFIs on the management's practices (planing, organizing, etc.) element in Bahrain . The t- value indicated by 0.2598 . The overall means for this variable is 4.23 which indicates a strong positive effect . Based on the results of the T test , the null hypothesis is accepted . Both managers group agreed that there is a positive change in management practices . FFIs look for qualified and well- trained employees to work in their institution . They organize courses and sponsor scholarships for some managers to be educated abroad or in the country . The result is well qualified managers in planning and organizing and play an important role in decision making .

The other element included in the Economic & Business environment is employment policies (Discrimination between Bahraini versus non-Bahraini); the t- test indicates a significant difference between the two manager groups regarding the perceived impacts of FFIs on employment policies in Bahrain. As indicated by the t-value of 2.4099 , based on the results of the T test , the null hypothesis is rejected . Discrimination between Bahraini and non-Bahraini are existing . FFIs are looking for experience and performance and they believe that Bahraini workers are not qualified to fill in such managerial positions .

Regarding The training of Bahrainis for managerial positions in the Business & Economic environment . The t - test indicates no significant difference between the two manager groups regarding the perceived impact of FFIs on this element as indicated by the t value of 1.0474. The overall means for this variable is 4.00 which indicates a strong positive effect . Based on the results of the T test , the null hypothesis is accepted . The demands for qualified people to work for FFI provide opportunities for more people to be trained and qualified to get managerial positions in different sectors besides the FFIs . Many Bahrainis who currently hold Ph.D. and MBA qualifications are in top positions in Government and financial institutions . Most of them are trained by those companies , for example , Bapco .

The last element in the Business & Economic environment is the Bahrain's position as a regional financial center .The t- test indicates no significant differences between the two manager groups regarding the perceived impacts of FFIs on Bahrain's position as a regional financial center as indicated by the t- value of 0.0276 . The overall means for this variable is 4.69 which indicates a strong positive effect on this element. Based on the results of the T test , the hypothesis is rejected. In addition to its well developed banking system , Bahrain has succeeded in achieving a critical mass in terms of a core financial infrastructure . Bahrain has established a system to regulate transactions in securities and to build confidence among investors , and the Bahrain Stock Exchange is poised to become a major regional securities market , Bahrain is also the center of the region's insurance industry with many local and international companies represented . Major international insurers have been attracted to Bahrain by the well-developed commercial and professional infrastructure .

Bahrain has provided significant prospects for economic growth in recent years , having high credit rating , excellent communications , road and air links . These make Bahrain the ideal gateway for institutions servicing the financial service needs of the region . Bahrain has established itself as a key center for international financial activity . The government of Bahrain is actively involved in policy initiatives which are intended to maintain and promote Bahrain's pre-eminence as a regional financial center . The location of Bahrain and the facilities which are offered to FFIs give them a chance to benefit from these facilities , in which they affect Bahrain in positive directions .

Hypothesis 2 stated that there is no significant difference between the two managers groups regarding the perceived impact of FFIs on Political-legal factors, and it included Governmental decision making and Government services .

The t- test indicates a significant difference between the two manager groups regarding the perceived impacts of FFIs on the Governmental decision making in Bahrain , as indicated by the t value of 3.6406 . Based on the results of the T test, the null hypothesis is rejected. The (MFI) group who are located in the top position in the government find that the presence of the FFIs in Bahrain have an impact on Government decision making , particularly the large FFIs, which share government projects and deal in the market with their huge capital . The (MNF) group indicated that the government has its own decision making and no relation with the FFIs or only a slight relation that has no effect on decision-making .

For the government services element , the t- test indicates a significant difference between the two manager groups, regarding the perceived impacts of FFIs on the Government services in Bahrain , as indicated by the t-value of 2.7845 . Based on the results of the T test, the null hypothesis is rejected . The (MFI) group said because of the presence of FFIs in Bahrain the Government has increased the services in many sectors like communications, housing, building, and other services, to attract more foreign companies in the country . The (MNFI) group have a different view, that the Government do these services on a regular basis and is mainly motivated by its internal policies .

Hypothesis 3 : stated that there is no significant difference between the two manager groups regarding the perceived impact of FFIs on technology advance which include introduction of computers, introduction of other types of technology, financial support for research, communications and cost of technology .

Regarding the perceived impact of FFIs on introduction of computers in Bahraini . The t-test indicates no significant difference between the two manager groups regarding the perceived impact of FFIs on this element as indicated by the t value of 0.1251 .

The overall means for this element is 4.51 which indicates a strong positive impact . Based on the results of the T test, the null hypothesis is accepted . The general effect of this element is positive in most Government departments and the private sector as well . FFIs in Bahrain transfer their technological equipment, especially computerized equipment, and because of the rapid changes in computer technology, the demands for this technology is increasing that it covers most of the local and private sectors in Bahrain .

Furthermore, the t-test indicates no significant difference between the two manager groups regarding the perceived impact of FFIs on the introduction of other types of technology in Bahrainis, as indicated by the t- value of 0.9534 . The overall means for this variable is 4.44 which indicate a strong positive impact on this element . Based on the results of the T test, the null hypothesis is accepted . This element has the same impact as the element mentioned earlier , that both manager groups agree about the impact of the presence of the FFI on technology advances in all sectors are positive . The developments in technology which are transferred with the entrance of the FFI or after , forces the market and most local and private sectors to follow the developments in technology .

As for the perceived impacts of FFIs on the financial support for research in Bahrain .The t-test indicates a significant difference between the two manager groups regarding this element as indicated by the t value of 5.3736 . The overall means for this variable is 3.53 , which indicates a positive effect . Based on the results of the T test, the null hypothesis is rejected . The two managers group have different opinions regarding this element . While the (MFI) group saw that the FFIs do support the research in Bahrain, to collect information about the economic and political situation of the country, like cultural changes, technological developments, human relations and resources . The (MNFI) group believed that the FFIs do not provide any visible financial support to research in Bahrain .

Finally the t-test indicates no significant difference between the two manager groups regarding the perceived impact of FFIs on communications (telephone, telex , satellite , etc.) in Bahrain as indicated by the t - value of 0.1214. The overall means for this variable is 4.49 , which indicates a strong positive effect on this element . Based on the results of the T test, the null hypothesis is accepted . The number of FFIs in Bahrain is more than 200 . Most of their work involves financial deals, agreements, and contacts, both local and worldwide. They use communications in most of their operations with different equipment, like telex, satellite, fax, and other facilities. This demand keep the communications sector looking for developments to fulfill the requirements .

The last element in this list of technology related factor is the cost of technology . The t -test indicates no significant difference between the two managers group regarding the perceived impact of FFIs on the cost of technology in Bahrain as indicated by the t - value of 0.9385 . The overall means for this variable is 3.71 which indicates a slight positive effect on this element . Based on the results of the T test, the null hypothesis is accepted . Both of the manager groups agree that there is a positive impact, but this impact can be found in the long-term, that technological equipment which is available now in the country in industry or the Government sector , will be replaced by new equipment to follow technological developments . This is a costly procedure and has been found recently or in the future . FFIs are one of the causes of this change .

For all technology elements , the results show that this group of elements factors represent a force for change in Bahrain . Technology has its own culture, cars, computers, airplanes, telephones, and changes the way people live . People work and play differently, and as a result traditions and values are changing . One can see the fast-paced life in Bahrain which technology has caused .

Hypothesis 4 stated that there is no significant difference between the two manager groups regarding the perceived impact of FFIs on company- specific factors which include : company advertising costs, company interest costs, company wages and salaries, company bad debts, company fixed costs and market share .

Regarding the perceived impacts of FFIs on company advertising cost in Bahrain . The t-test indicates a significant difference between the two manager groups, as indicated by the t value of 2.3705 . The overall means for this variable is 3.11, which indicates that there is a slight positive effect . Based on the results of the T test, the null hypothesis is rejected. The (MFI) groups saw that advertising will cost more in the presence of the FFIs , and this is due to competitive of FFI in the markets, while (MNFI) groups found that there is no effect on the company advertising costs .

For the company interest costs element , the t- test indicates a significant difference between the two manager groups regarding the perceived impacts of FFIs on the company interest costs in Bahrain , as indicated by the t-value of 2.3290 . The overall means for this variable is 3.18 which indicates a slight positive effect on the company interest costs in Bahrain . Based on the results of the T test, the null hypothesis is rejected. The (MFI) groups expect more interest cost in the presence of the FFI in Bahrain . While (MNFI) groups expected less interest cost .

For the company wages and salaries element, the t- test indicates a significant difference between the two manager groups regarding the perceived impacts of FFIs on the company wages and salaries in Bahrain, as indicated by the t value of 2.5507 . The overall means for this variable is 3.31 which indicates a positive impact on this element . Based on the results of the T test, the null hypothesis is rejected. The (MFI) group indicated that FFIs give more salaries and wages for their employees, while local institution give less than FFIs. The (MNFI) group indicated that there is no difference in the wages and salaries . Most of the studies found that FFIs and the host country should benefit from the relationship, and in every relationship , there are both benefits and costs for both parties.

For the company bad debt element, the t- test indicates a significant difference between the two manager groups, regarding the perceived impacts of the presence of the FFIs on company bad debt in Bahrain, as indicated by the t - value of 3.6592 . The overall means for this element is 3.05 which indicates a slight positive effect . Based on the results of the T test, the null hypothesis is rejected.

The (MFI) groups saw that financial weaknesses of the most companies is the cause of bad debts, and when the FFIs invest their capital in the local market, the bad debts will become less due to the availability of more funds available to more companies or more opportunity to overcome those bad debts. The (MNFI) group saw that FFIs have no impact on this element.

Regarding Company fixed and cost element, the t- test indicates a significant difference between the two manager groups regarding the perceived impact of the presence of FFIs on this costs as indicated by the t-value of 6.050. The overall means for this element is 3.00 which indicates positive effect. Based on the results of the T test, the null hypothesis is rejected. Some of the managers saw that variable costs of companies have changed due to the changes in developments, technology, wages and salaries, and other services done by the company. They saw that these changes are due to the presence of FFIs in the country, while other managers saw that there is short-term impact on this variable. But instead the impact can be explained in the long-term as the cost structure of many companies is difficult to change.

The last two elements in the dimension are the interest income and the non-interest income. For both of the elements the t - test indicates no significant difference between the two manager groups regarding the perceived impact of the FFIs on the two elements in Bahrain, as indicated by the t-value of 0.4163, and 0.4025 respectively. The overall means for these elements is 3.46 and 3.25 which indicate a positive effect. Based on the results of the T test, the null hypothesis is accepted. Regarding the interest income, the managers group found that the presence of the FFIs in the market will share the local financial institution in providing loans and other facilities, which will attract customers. This sharing will reduce the interest income by the local financial institutions, and according to that FFIs have a negative impact on this element. For the non-interest income variable managers saw that some local companies have their own properties in the country such as lands, houses, complexes, rents, and others. These properties incurred income for those companies, and the presence of the FFIs will increase that income.

For the market share element, the t - test indicates no significant differences between the two manager groups regarding the perceived impacts of the FFIs on this variable, as indicated by the t value of 1.2696. The overall means for this variable was 3.39 which indicates a positive effect . And based on the results of the T test, the null hypothesis is rejected . The two manager groups have similar views, that the FFIs have a positive effect on the market share in Bahrain , as the market will grow, the market share is also likely to grow . The growth in the market will reduce the unemployment in the country .

Hypothesis 5 stated that there is no significant differences between the two manager groups regarding the perceived impact of FFIs on social - cultural factors and it included : the number of educated people, Bahrain's culture and traditions and changes in the economic class structure .

Regarding the perceived impact of the FFIs on the number of educated people in Bahrain . The t - test indicates no significant difference between the two manager groups, as indicated by the t value of 1.0035 . The overall means for this variable is 4.25 which indicates a strong positive effect on this element. And based on the results of the T test, the null hypothesis is accepted. One of the most important requirements of the FFIs for their employees to hold positions and management jobs is qualified and educated people . This demand gives opportunities to Bahrainis to be educated and qualified to meet the need of the FFIs . Government and most financial institutions continued their training programs for most of their employees by sending them to advanced courses in universities of many countries. Several staff also visited various banks and financial organizations on training courses in Bahrain and abroad .

For the Bahrain culture and traditions element, the t- test indicates a significant difference between the two manager groups regarding the perceived impact of the presence of the FFIs on this element, as indicated by the t - value of 2.4483. The overall means for this variable is 2.84. The means are less than 3.00, which relatively low due to the presence of some negative effect. Based on the results of the T test, the null hypothesis is rejected . The negative impact which is caused by the FFIs have changed the culture as well as the traditions of the country .

Westernization is one of the causes of change especially in the younger generation. FFIs hire more women than local companies in Bahrain, and that is a major cause of cultural change. Expatriates and their culture have low effects on local values and traditions and family relations.

Regarding the changes in the economic class structure, the t -value is 3.536 which indicates that there is a significant difference between the two manager groups, and the overall means for this element is 3.80 which indicates a positive effect.

The (MFI) group saw that the change in the economy class structure is because of the presence of the FFIs in the country and what they transferred with them of advanced technology and developments. The (MNFI) groups saw that the FFIs have no impact on this element, and they commented that the changes is only because of the development and the advance technology.

6.4 Overall Findings

Some of the participants used the last page of the questionnaire to provide additional comments about the FFIs' effects on change in Bahrain's economy. Most of the comments were elaboration about factors already covered in the structured portion of the questionnaire. Nevertheless, some participants discussed other aspects in the environment that were affected by the presence of FFIs.

In the open-ended questions, some Bahraini managers pointed out that the effect of FFIs on some dimensions in the environment may be, at the same time, both positive and negative. Some of them complained about westernization of the culture as a result of FFIs in Bahrain. Westernization they say, affects mostly the younger generation. Another widely-shared opinion was that the presence of the FFIs presented unfair competition to local businesses, mainly because of their size. Most of the managers of the two nationality groups agree that FFIs discriminate against Bahrainis in hiring decisions and management development. Many responded to the open-ended questions by stating that FFIs should provide more training and development to employees. Some argued that when FFIs hire other nationalities instead of Bahrainis, it causes negative attitudes by locals toward non-Bahraini in Bahrain.

Some of the managers in the other nationalities group mentioned that FFIs hire more women than the local companies in Bahrain, and that this is a major cause of cultural change . The comments cited are samples of the perceptions expressed by managers to the open-ended questions. From these statements a number of hypotheses could be raised for further study on the presence of the FFIs in Bahrain . Some of the managers in this study specifically mentioned the Asian labor force as the source of increased crime in Bahrain .

6.5 Other Factors Affecting change in Bahrain

After asking for general comments , the question was asked in item 56 , “Do Foreign Financial Institutions have any effects on changes in Bahrain other than those questions ? Some said (Yes) while others did not respond. It may be assumed that many no-responses were due to the fact that managers were already in the process of answering a questionnaire about the influence of FFIs on Bahrain .

Many managers reported that the cause of change came from the influx of foreign nationals who are coming with those companies . Expatriates bring with them their own cultures, religions, customs, languages , and behavior patterns. Other factors mentioned by managers were that Bahrainis going abroad within the FFIs as students or businessmen were changed by what they saw in the rest of the world . Students, particularly, are exposed to foreigner culture , and bring back with them the values and attitudes of the west which often clash with the traditions and values of Bahrain .

Policies of the Bahrain Government were listed as a major cause of effects by a number of managers . They mentioned such facts as international relations, governmental plans and policies which encouraged change. Also they argued that governmental contracts and agreements with foreign companies and nations accelerated change in the country , in which it will be affected by those companies . Education was seen as another cause of change by some of the managers. Educational opportunities have expanded tremendously in Bahrain in recent years. Both public and private schools today provide educational opportunities for youth, both male and female . The number of girls attending school has increased greatly, and many schools are co-educational . Schools are seen as a major agent of change in the introduction of foreigner ideas and traditions .

Many managers discussed the westernization of Bahrain ; they criticized the importation of western ways and the copying of the American and European life styles, especially by the youth . This impact, discussed in negative tones, may be seen in peoples' taste, consumption patterns, family relations, interpersonal and business relations . Also a number of managers mentioned the use of foreign maids as a change agent in Bahrain

Some of the managers said FFIs have a positive influence and it is hindered by monopoly ; others said that FFIs make higher living standards and a mix of cultures and create an international interface and experience . Many managers said (yes) to the above question and they argued that in the long term it will open our society to the rest of the world and make the transfer of technology an easy process ; besides, it will improve our competitiveness in the world and we will be real contributors to globalization .

Chapter 7

SUMMARY& CONCLUSION & RECOMMENDATIO

Summary & Conclusion & Recommendation

7.1 Recommendations

The presence of the FFIs in Bahrain gives more opportunities for the local businessman in Bahrain to conduct business abroad through the financial facilities provided, which increased international trade. It is to the advantage of these companies, as well as to the nation, to ensure a positive business climate. Most managers believe that FFIs are good for the economic and technological development of Bahrain.

The perception of managers indicate positive effects of the FFIs on the transfer of technology. This transfer aims to reduce the country's dependence on oil and to utilize national resources more efficiently. Technology was mentioned as a factor of change in Bahrain. The Governments of less developed nations should bear the responsibility to educate, prepare, and inform their people about new technology, and try to choose appropriate technology. One can see the fast-paced life in Bahrain which technology has caused.

The presence of FFI in Bahrain do attract business in Bahrain manufacturing services, that most large worldwide companies interested to do business in the country that FFI are available. The presence of FFIs contribute the country to GNP. The presence of the FFIs in the country enhancing productivity of the employees and improving the quality of the services. The perceptions of managers indicate certain negative effects of FFIs. For example, the foreign personnel that are brought to Bahrain are perceived to have a negative impact on the cultural environment.

Academics interested in international, cross-cultural business may find this study to be useful. Field research in Bahrain provided the basis for this research. Although the findings of this study are the perceptions of managers in Bahrain only, it is believed by the researcher that the cultural similarities in the Arab Gulf states gives this study greater importance in such countries.

Recommendation for Future Research

- This study can be reported in the future to assess the changes perceptions of manager groups regarding the presence of FFI on Bahrain economy .
- Similar studies can be undertaking in other Gulf Countries .
- Similar studies can be undertake to assess the several impacts of MNC, on the economies of host countries .

7.2 Summary

The purpose for this exploratory survey research was to answer the research question “ what do managers in Bahrain think is the impact of FFI on the Bahrain’s economy ? “ The findings indicate that, in general, the managers surveyed perceive that FFIs have a positive impact on the Bahrain economy . The only negative effect that the managers perceived from FFIs was to the cultural environment .

A total of 61 managers in Bahrain responded to the questionnaire . The managers perceptions about the impact of FFIs were solicited regarding five major dimensions in the environments ; that is , business-economic, political-legal ,technology , company-specific, social-cultural .

An over-view of the Foreign Financial Institutions , developing nations, and how FFIs affect the environment in developing nations . A review of the environment in Bahrain is provided . Because the study concerns the effects of FFIs on the environment in Bahrain , a review of the Bahrain environment is provided . A brief historical sketch of Bahrain, with special focus on its banking, offshore banking units (OBUs), economic, and financial institutions, also this study included reviews of all previous studies that are related to the topics discussed in this research.

The methodological aspects of the study was the design of the study , the sample, the variables, the hypotheses, instrumentation, and data analysis are discussed .

In the profile analysis the descriptive statistics on the perceptions of managers on the perceived impacts of FFIs on Bahrain’s economy are discussed . The scores are on a five-point Likert-type scale , number 1 perceive very low effect (mostly negative) and 2 perceive low effect (slightly negative) and 3 moderate effect and 4 perceive strong positive effect 5 perceive very strong positive effect .

The major finding of this study was that all managers perceive that FFIs have positive effects on the environment in Bahrain, except for the cultural environment. The hypotheses testing was used the statistical test for differences between managers group, T-test statistic compares differences between groups and produced the following findings :

1 . There is no significant difference between the two managers group regarding the perceived impact of the FFIs on economic development, income distribution, banking and finance, management practices, training of Bahrainis for managerial positions and Bahrain's position as a regional financial center . And there is a significant difference between the two managers group in the cost of living, international trade and Employment policies (Bahraini versus non-Bahraini) .

2 . There is a significant difference between the two managers group regarding the perceived impact of FFIs on the Governmental decision making and Government services in Bahrain .

3 .There is no significant difference between the two managers group regarding the perceived impact of FFIs on the introduction of compute, introduction of other types of technology, communications, cost of technology . And there is a significant difference between the two managers group regarding the perceived impact of FFIs on the financial support for research in Bahrain .

4 . There is no significant difference between the two managers group regarding the perceived impact of FFIs on the interest income and non-interest income and market share . And there is a significant difference between the two managers group regarding the perceived impact of FFIs on the company advertising cost , company interest costs, company wages and salaries in Bahrain, company bad-debts and company fixed cost .

5 . There is no significant difference between the two managers group regarding the perceived impact of FFIs on the number of educated people. And there is a significant difference between the two managers group regarding the perceived impact of FFIs on the social values, Bahrain culture and tradition and change in the economic class structure .

At the end of the questionnaire, the managers were asked to answer a number of open-ended questions . Their answers gave additional insight about their view of FFIs .

7.3 Conclusion

The major finding of this study was that all managers perceive that FFIs have positive effects on the environment in Bahrain, except for the cultural environment . The more favorable perceptions concerned FFIs effects on the technological, business-economic, political-legal and company specific in Bahrain . The managers perceived the effect of FFIs to be negative on the cultural environment . If FFIs are to continue to prosper in the nation, they need to address this feeling of discontent and help the nation adapt to change without losing its cultural distinctiveness .

Technology was mentioned as a factor of change in Bahrain . The governments of less developed nations should bear the responsibility to educate, prepare, and inform their people about new technology, and try to choose appropriate technology . One can see the fast-paced life in Bahrain which technology has caused

We discussed the impact of FFIs and concluded that although there are many direct and indirect negative impacts , there are also many positive impacts for the host, particularly government revenue, direct employment and the local economy .

The presence of the FFIs in Bahrain gives more opportunities for the local businessman in Bahrain to conduct business abroad through the financial facilities provided, which increased international trade . Also the presence of FFIs in Bahrain has a major impact on management practices, due to the FFIs' emphasis on contact with employees as a form of internal marketing and as a way of enabling employees to identify with business needs and achieve improvements in customer service

The presence of the FFIs have a positive impact on the training of Bahrainis, in which that the managerial skills will be improved since most FFIs often provide training opportunities for local people with encouragement from the host Government . Initially such training may be of limited use in the local economy , although indirectly it may generate economic activity and expose locals to modern business practice and technology and to qualified and educated them to cope with the development and technology revolution, and particularly to occupy their own vacancies .

The presence of FFIs in Bahrain has a major impact on management practices, as a way of enabling employees to identify with business needs and achieve improvements in customer service .

At the end of the questionnaire, the managers were asked to answer open-ended questions . Their answers gave additional insight about their view of FFIs . A Large majority stated that FFIs definitely affected the Bahraini environment . However, managers also believed that other factors, such as the oil wealth, actions of the government, the fact that many Bahrainis travel abroad and attend foreign colleges and universities. There were several areas in which the managers expressed negative opinions regarding FFIs . Bahraini managers expressed the view that FFIs discriminated against Bahrainis, and favored non-Bahraini over Bahraini managers .

Today we are living in a world which is experiencing great changes . The emergence of new technologies is rapidly undermining old centers of power and authority while figures and companies of influence are appearing . These changes are intensifying some of the challenges that have always faced us , and they are also creating some new dilemmas . Developments , especially in the ways people communicate and obtain information , have changed many aspects of our lives . Most of these changes have been positive . There is more choice and more information than ever before . However , there have also been negative effects , one being a widespread loss of trust in many established institutions and ideologies . At the same time , these developments have led to expanded expectations being placed on other companies , including multinational companies .

7.3 APPENDIX

Date: 6th October, 1997

To : All General Managers

Dear Sir ,

The topic of my MBA thesis which I am currently working on at the University of Bahrain is “ The Perceived Impact of the Presence of Foreign Financial Institution in Bahrain on the Bahrain Economy “ .

Please find attached a questionnaire which will assist me in completing my thesis . It is very important that your answers to the questionnaire be accurate and complete . Your responses which will be kept highly confidential , will be used for academic purposes .

I hope that the findings of this study will provide more insights into the role of the growing financial industry in Bahrain .

Thank you very much for your co-operation .

Yours faithfully ,

**Ali Abdulla Ateeq ,
MBA student , College of Business
Administration .
University of Bahrain .**

SECTION I

Participants' Demographics

Please fill in the blanks or check the appropriate response .

1. Name of your organization :.....
2. Type of organization :
..... 1. Public sector (government) 2. Private sector
3. What is your job title ?
4. How do you rank in the organization ?
..... 1. Top position 4 . Fourth level position
..... 2. Second level position 5 . Fifth level position
..... 3. Third level position 6 . Other (specify)
5. Your nationality is :
.....1. Bahraini
.....2. Other Arab (please specify) :
.....3. Other nationality (please specify) :
6. If non- Arab , can you speak and understand Arabic ?
1. None 2. A few words 3. Conversational
4. Very fluent
7. If non-Bahraini, how long have been in Bahrain ?
Years Months
8. What is your age ? Years
9. Your education (please check one) :
..... 1. Less than High School 4. College (4 years)
..... 2. High School 5. Graduate School
..... 3. College (2 - 3 years) 6. Other (specify).....
10. Which category best describes your annual income (please translate your income into Bahraini Dinars if any portion of it is earned in countries other than Bahrain) ?
..... 1. Less than BD 10,000 4. BD 30,001 - 40,000
..... 2. BD 10,001 - 20,000 5. BD 40,001 - 50,000
..... 3. BD 20,001 - 30,000 6. More than BD 50,000

SECTION 11

PARTICIPANT'S OPINION OF THE INFLUENCE OF FOREIGN FINANCIAL INSTITUTIONS (FFI) ON BAHRAIN ECONOMY

In this section please provide your opinion with regard to FFI that operate in Bahrain and the way they influence Bahrain's economy. An FFI is a non-Bahraini company that does business in Bahrain, by selling their marketable services. There are no right or wrong answers. Please circle the number that best describes your feeling for each item, using the following scale :

Mostly Negative Effect MNE = 1	Slightly Negative Effect SNE = 2	Moderate Effect ME = 3	Strong Positive Effect SPE = 4	Very Strong Positive Effect VSPE = 5
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Please indicate your opinion on how Foreign Financial Institutions (FFI) have influenced the following conditions in Bahrain.

BUSINESS-ECONOMIC (General)	MNE	SNE	ME	SPE	VSPE
11. Economic development	1	2	3	4	5
12. Cost of living	1	2	3	4	5
13. Income distribution	1	2	3	4	5
14. Oil industry	1	2	3	4	5
15. Manufacturing	1	2	3	4	5
16. Banking and finance	1	2	3	4	5

Mostly Negative Effect MNE = 1	Slightly Negative Effect SNE = 2	Moderate Effect ME = 3	Strong Positive Effect SPE = 4	Very Strong Positive Effect VSPE = 5
--	--	-------------------------------------	--	--

	MNE	SNE	ME	SPE	VSPE
17. International trade	1	2	3	4	5
18. Transportation	1	2	3	4	5
19. Trade with home country	1	2	3	4	5
20. Management practices (planning, organizing, etc.)	1	2	3	4	5
21. Working conditions for employees	1	2	3	4	5
22. Employment practices (recruiting, benefits, etc .)	1	2	3	4	5
23. Discrimination in employment (Bahraini versus non-Bahraini)	1	2	3	4	5
24. Training of Bahrainis for managerial positions	1	2	3	4	5
25. Worker productivity	1	2	3	4	5
26. Bahrain's position as regional financial center	1	2	3	4	5

POLITICAL-LEGAL

27. Government system	1	2	3	4	5
28. Legal system (the law)	1	2	3	4	5
29. Judicial system (the courts)	1	2	3	4	5
30. Independence of Governmental decision-making	1	2	3	4	5
31. Government services : (water, electricity, roads, etc.)	1	2	3	4	5

Mostly Negative Effect MNE = 1	Slightly Negative Effect SNE = 2	Moderate Effect ME = 3	Strong Positive Effect SPE = 4	Very Strong Positive Effect VSPE = 5
--	--	-------------------------------------	--	--

TECHNOLOGY	MNE	SNE	ME	SPE	VSPE
32. Introduction of computers	1	2	3	4	5
33. Introduction of other types of technology	1	2	3	4	5
34. Introduction of agricultural technology	1	2	3	4	5
35. Financial support for research	1	2	3	4	5
36. Communication (telephone, telex, satellite, etc.)	1	2	3	4	5
37. Cost of technology	1	2	3	4	5

COMPANY - SPECIFIC

A - Costs

38. Your company's advertising cost	1	2	3	4	5
39. Your company's interest costs	1	2	3	4	5
40. Your company's wages and salaries	1	2	3	4	5
41. Your company's bad debts	1	2	3	4	5
42. Your company's fixed costs	1	2	3	4	5

B - Revenues

43. Interest income	1	2	3	4	5
44. Non- interest income	1	2	3	4	5

Mostly Negative Effect MNE = 1	Slightly Negative Effect SNE = 2	Moderate Effect ME = 3	Strong Positive Effect SPE = 4	Very Strong Positive Effect VSPE = 5
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	MNE	SNE	ME	SPE	VSPE
C- Market Share	1	2	3	4	5
D- Employees Productivity	1	2	3	4	5
E- Long- Term Plans	1	2	3	4	5
F- Need for merger /acquisition	1	2	3	4	5
G- Quality of services provided	1	2	3	4	5
H- Range of services offered	1	2	3	4	5

SOCIAL-CULTURAL

45. Educational system in general	1	2	3	4	5
46. Number of educated people	1	2	3	4	5
47. Quality of education	1	2	3	4	5
48. Family relationships (closeness of relations between children, parents, and other relatives) .	1	2	3	4	5
49. Practice of religion	1	2	3	4	5
50. Social values (Morality)	1	2	3	4	5
51. Bahraini culture and traditions	1	2	3	4	5
52. Use and values of foreign languages	1	2	3	4	5
53. Preservation of Arabic as the spoken language	1	2	3	4	5
54. Change in the economic class structure	1	2	3	4	5
55. Role of women in the Bahraini society	1	2	3	4	5

56. Have the Foreign Financial Institutions had any effect on the changes in Bahraini society other than those mentioned in the questionnaire ? If yes , please explain :

57 . Would you like to have a copy of the study's findings ?

Y ☐ N ☐

Thank you

Once again, I appreciate your cooperation .

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