

**THE EFFECT OF COST OF LABOUR ON FOREIGN DIRECT
INVESTMENTS IN KENYA**

BY

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DECLARATION

I, the undersigned, declare that this is my original work and has not been presented to any institution or university other than the University of Nairobi for examination.

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DEDICATION

I dedicate this research project to my family for their invaluable support both morally and financially, to my siblings for continually encouraging me throughout the research period, and to all my friends for their continued support when I was doing my project.

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LIST OF ABBREVIATIONS

CBK	Central Bank of Kenya
CPI	Consumer Price Index
FDI	Foreign Direct Investments
GDP	Gross Domestic Product
IOC	International Oil Corporation
KNBS	Kenya National Bureau of Statistics
MNC	Multi-National Corporation
SPSS	Statistical Package for Social Sciences
SSA	Sub-Saharan Africa
TIC	Tanzania International Centre
USA	United States of America
USD	United States Dollar

ABSTRACT

The causal nexus between cost of labour and Foreign Direct Investments have been subject for debate over the years. The labour cost is very vital when it comes to position deliberation, but mostly when the savings is targeting foreign markets. A lower cost of labour decreases the firm's sunk cost, when other features are kept constant. In some cases, this cheap man power translates a new move of business or part of it in overseas countries. According to the current researchers, as FDI moves to technology, cheap labour will be out of fashion. However, a high need have informed man power will rise. This study sought to determine the effect of cost of labour on foreign direct investments inflows in Kenya. The independent variable was cost of labour as measured by hourly wage on a quarterly basis. The control variables were economic growth as measured by quarterly GDP, exchange rates as measured by quarterly exchange rate between KSH/USD and inflation rates as measured by quarterly CPI. FDI inflows in Kenya were the dependent variable which the study sought to explain and it was measured by FDI inflows in the country on a quarterly basis. Secondary data was collected for a period of 10 years (January 2007 to December 2016) on a quarterly basis. The study employed a descriptive research design and a multiple linear regression model was used to analyze the relationship between the variables. The results revealed that individually, cost of labour, economic growth, are not significant determiners of FDI inflows while exchange rates and inflation rates were found to be statistically significant determiners of FDI inflows in Kenya. This study recommends that there is need for policy makers to regulate the hourly wage prevailing in the country bearing in mind that they influence FDI inflows in the country.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Foreign direct investment (FDI) has been growing drastically given it is a major international capital form of inflows as well as due to financial and political transformation in developing economies (Adam & Tweneboah, 2009). According to Njuguna (2016), the effort made by third world nations in drawing FDI is based on the potential constructive impacts on the home economy such as productivity increase, complement domestic private investment, transfer of technology, management and technical skills, production network internationally, training of employees, creating employment opportunities, and easy external markets access which then boosts the general financial development. As a result of the perceived benefits of attracting FDI, a number of states administrations have come up with diverse savings as a way of attracting external investors. Availability of cheap labour in developing countries is one of the incentives that is expected to attract FDI (Hill, 2005).

This study will be guided by several theories such as the internalization hypothesis, eclectic paradigm theory and product life cycle theory that strive to explain the determinants of foreign direct investments in a given country. Internationalization theory suggests that licensing has major draw backs as a strategy for entering foreign markets as it does not take full advantage of resources available in the foreign country. The second theory is eclectic paradigm that was championed by British Economist; John Dunning where he disputed that location-specific advantage is a substantial significance in illuminating both the justification for as well as trend of

FDI. By location specific advantage, Dunning means the advantages that arise from utilizing resource donation or possessions that are coupled to a specific foreign location and that a company finds important to merge with its own exclusive resources such as company's technical, marketing or administration potential (Charles, 2008). Product life cycle theory the stages a new product goes through before the producing firm goes international (Dunning, 1993).

Kenya is known for having many overseas companies. In the year 1970s it emerged as the actual preferential target for FDI in East Africa. Nevertheless, due to many insecurity issues, Kenya lost its sovereignty over the FDI market, up to date. To counter the status core, the country commences vision 2030 in 2008, in order to regain its competitiveness in the market. This proposal has seen a transformed obligation to draw FDI to promote the industrialization process (Kinuthia, 2010). The government has board on institution of open business regions; perfection of company climate, infrastructure, and development of other incentives aimed at building a momentum that can maintain economic development and support advancement. At the centre of these determination is a promise to draw foreign direct investment which is anticipated to help in the industrialization progression (UNCTAD, 2016).

1.1.1 Cost of Labour

Labour is distinct as a duty that requires physical and mental effort. Labour is very important because it is the one that combines all the other resources in order to produce the various products and services (Chen, 1983). On the other hand, cost of labor is the reward given after labour which can be high or low (Dunning, 1993). Inexpensive man power is common in manufacturing firms, since the 18th century. This occurs in several places like China, Vietnam, Mexico and Indonesia and many

other developing countries Kenya included. In this countries, people work for very little amount of money (World Bank, 2015).

With the world becoming minor by the minute due to innovativeness, firms have considered it wise to contract out the production of its produce and the service that it gives to countries where the labour is inexpensive. Investing in other countries will involve a lot of costs, however. Multinational corporations have to ensure that there is enough labour force existing with quality education suitable for the product or service to be provided. Education is a key consideration especially for services in the fields of accounting, web technology and other areas that require a decent level of educational attainment. The skill of the confined to discuss in a common language, the safety and security of the surroundings and the evenness and consistency of confined laws and policy are other key considerations (World Bank, 2015).

1.1.2 Foreign Direct Investments

Hill (2005) defined FDI as the long lasting investments which are outside the investor's physical or economic boundaries. The beneficiary country of FDI is equipped with capital flow as well as technology flow that will aid in its development. When a country seeks to invest in another, the benefit it seeks to achieve must be higher than the risks it must deal with. UNCTAD (2002) describes three different types of FDI. These are: reinvested earnings, equity capital and other capital which mainly consist of intercompany loans. FDI's create new job opportunities as upon setting of the business, recruitment and training of the locals in the host country is undertaken transferring skills and technological know-how as well as providing jobs. According to Ryan (2006), FDI represent long term commitments to the host country. It is a preferred form of investment because it has no obligations to the host country.

According to Kariguh (2014), foreign investment is one of the main sources of capital flows in most economies that are still developing as they tend to bridge the gap of capital, managerial skills, technology, and formation of human capital as well as creating an environment for more business competition. However, according to Voorpijl (2011), there are consequences for increasing the FDI inflows whereby the multinationals can exploit the local capabilities more freely. Also, the promotion of private investment rather than public investments by many international donors leaves nothing to the host company when they decide to leave.

Generally, FDI are the net inflows of investments from one economy to another and therefore FDI is measured by the net inflow, which is the remainder of first time investment inflows after removing the divestiture and is measured as a percentage of GDP of that economy (Shahbaz, Lean & Kalim, 2013). FDI is advantageous to multinational enterprises as it is a means of entering the markets, accessibility to resources and reduced cost of production. It also benefits the invested country as it provides domestic investment capital which is much in need, creating job opportunity to locals, introduces new management skills and strategies, business practices, technology and economic concepts that ensures growth of local businesses, new industries and increased revenue which leads to economic development (Karthik & Kannan, 2011, Selma, 2013).

1.1.3 Relationship between Cost of Labour and Foreign Direct Investments

According to Mody and Srinivasan (1998), the labour cost is very vital when it comes to position deliberation, but mostly when the savings is targeting foreign markets. A lower cost of labour decreases the firm's sunk cost, when other features are kept constant. In some cases, this cheap man power translates a new move of business or

part of it in overseas countries. According to the current researchers, as FDI moves to technology, Cost of labour will be out of fashion. However, a high need have informed man power will rise (Pigato, 2001). According to researchers, savings companies are so much focus onto standard man power. This is therefore, the reason why elite people are taken as employees since they are teachable and sustainable (Wheeler & Mody, 1992).

International firms develop its business to an overseas country due to many causes like the utilization of economies of scale, the use of explicit compensation, often due to a life-cycle outline of their yields or simply since their rivals are occupied in parallel businesses (Agiomirgianakis, Asteriou & Papathoma, 2003). On the other hand, Governments are also on a different note, the administrations are as well occupied in a plan rivalry by shifting main elements of their financial policies, like home labour market setting, business tax and duty barriers, financial support, privatization and authoritarian command laws to advance overseas direct savings actions in their states.

Bouoiyour (2003) Identified that, a number of states are struggling to pull overseas investors, to their premises, by means of income tax relief, trade in obligation exclusion and financial support to overseas firms, and procedures like market choice, infrastructures as well as cartel privileges. Murkhejee (2007) using the Leontief production function was able to identify the contradicting impact of FDI. He calculated the maximum equilibrium output that foreign companies are able to produce under two different motives that lead to foreign presence i.e. presence of readily available cheap labour and cost saving that emanates from transport. Findings from his research showed that a country's welfare is increased in the second

implantation type which is attributed to productivity spillover while there is no positive advantage in the first.

According to Charkrabarti (2001), of all controversial probable determinants of FDI, wage stood a high chance of being a superior indicator. Base on various studies and theories, it is clear that inexpensive man power has attracted a number multinationals upon by the proponents of the dependence assumption and those of the innovation assumption, though with very diverse repercussion. However, unanimity has been lack even between the reasonably small figures of learning that have discovered the position of salary in affecting FDI: results vary from higher host nation pay disappointing inbound FDI to having no important effect or even a positive relationship.

1.1.4 Cost of Labour and Foreign Direct Investments in Kenya

Back in the year 2006, there nearly 12 million workers registered under the Kenya Labour Force with up to 75 percent of the population working under agriculture. Within the same percentage, a few works outside small scale agriculture as well as pastoralist group. By 2004, 15 per cent of the man power was known to be unemployed. It was also witness that urbanization has created a big move of people to leave upcountry where agriculture jobs are many and focus on getting jobs within cities (World Bank, 2015). In the years 1997 and 2010, the Labour force recorded a constant rate of men to women in employment. In 1997, 65 per cent of women were employed under agriculture and other market type businesses, while men in the same case are 76 per cent (World Bank, 2015). The share in the labour force records grew by 2010 to 61 percent of women and 72 percent of men in the labour force.

Although Kenya has been known to provide cheap labour, As oppose to the kind of employment Kenyan are known for in about 20 years down the line, a number of them have move to while color jobs or other business different from agriculture oriented sectors. In addition, the Kenyan worker has prioritized education and thus leading to an increased demand for a higher pay as skills improve. According to the World Bank 2012 Kenya Economic Update, majority of Kenyans are focusing on current well paid employment. This is evident when figures are compared, whereby in 1989, only 1.9 million Kenya were under formal employment as oppose to the year 2009 where about 5.1 million people are already in these jobs. The statistic also shows the actual ratio of men to women in these jobs, where men dominated nearly in all sectors. It is clear that in 2009, 3.4 million men were in these jobs, while 1.3 million women were in this kind of employment (World Bank, 2012).

FDI in Kenya is covered in all the sectors, be it in the banking, automobile or telecommunications sector. Various multinational companies have set up operations in Kenya and they include Car and General, Coca-Cola as well as communication firms like Airtel. In every aspect of our lives, FDI is felt that is in the goods and services that we use. FDI's are not in isolation as they have provided jobs and with them, technical knowledge as they train their Kenyan employees to maintain the standards that are there in their other investments all over the world. They are the major source of foreign exchange to the country. In total, Kenya has more than 200 multinational companies across the sectors with Britain, USA, Germany, South Africa, Netherlands, Switzerland, China and India being the main traditional sources of FDI (Kinuthia, 2010).

Kenya serves as the East African business hub for many international businesses. This translates to a dependence of FDI for capital inflow that in turn reflects on provision of jobs and an economy that is helped to grow by these foreign investments. Kenya's FDI average percentage growth between 2007 and 2015 was forty percent (40%) with the inflows primarily channeled into retail and consumer products, technology, media, telecommunications, minerals, oil and natural gas sector mainly from the UK, USA and India (Ernest & Young, 2015). This growth rate earned Kenya the status of a FDI hotspot joining other African Countries such as Ghana, Tanzania, Zambia, Uganda, Nigeria, Mozambique, and Rwanda. In 2015, FDI inflows stood at USD 1076.9 million (KES 105.29 billion), up from USD 670 million (KES 65.51 billion) a year earlier which is a sixty per cent (60%) increase. This capital mainly went to oil, gas and the manufacturing industries (UNCTAD, 2015).

1.2 Research Problem

The causal nexus between cost of labour and Foreign Direct Investments have been subject for debate over the years (Mahiti, 2012). According To Mody and Srinivasan (1998), the labour cost is very vital when it comes to position deliberation, but mostly when the savings is targeting foreign markets. A lower cost of labour decreases the firm's sunk cost, when other features are kept constant. In some cases, this cheap man power translates a new move of business or part of it in overseas countries. According to the current researchers, as FDI moves to technology, cheap labour will be out of fashion. However, a high need have informed man power will rise (Pigato, 2001). According to researchers, savings companies are so much focus onto standard man power. This is therefore, the reason why elite people are taken as employees since they are teachable and sustainable (Wheeler & Mody, 1992).

Kenya has a long standing rich history with foreign firms dating back to the 1960s. For years Kenya has been seen as an attractive destination for foreign investors seeking to invest in the greater East and Central Africa region. Kenya continues to serve as the East African business hub of choice for a number of multinational companies like General Motors, Proctor & Gamble, Microsoft, Google, Ogilvy and Mather, Coca-Cola and Citibank among others. It is worth noting that foreign investors control about 51% of the total banking assets in the country (CBK, 2015). Kenya has been seen as a favorable hub for the region because of its connectivity to worldwide hubs, its skilled and educated workforce, advanced financial system, developed infrastructure and strategic regional trade memberships and partnership agreements (Ryan, 2006).

Empirical evidence is largely inconsistent and quite varied on the main determinants of foreign direct investment inflows in a country. Mottaleb and Kalirajan (2010) demonstrated that countries with larger Gross Domestic Product (GDP) with higher growth rates, higher proportion of international trade and a more business-friendly environment are more successful in attracting foreign investors. Asiedu (2002) found that infrastructure, openness to trade and high returns on investments are key factors that promote international oil companies (IOC's) investment decisions. Babatunde (2012), in a study on the impact of tax incentives on foreign direct investment in the oil and gas industry in Nigeria, found that there is an important impact of tax enticement, accessibility of natural resources and openness to trade on foreign direct investment. Mahiti (2012) investigated the factors that determine international corporate investments and found that infrastructure mainly in the transport sector plays a major role in attracting more Foreign Direct Investments.

Locally, several topics were conducted on the FDI in Kenya. Kinuthia (2010) and Kinaro (2006) investigated the determinants of Foreign Direct Investment in Kenya, Gachino (2006) focused on foreign direct investments in the Kenyan manufacturing industry, Chombo (2009) investigated the influence of the global credit crunch on Foreign Direct Investment (FDI) inflows in Kenya. Therefore evident that few researches were to investigate the determinants of foreign direct investments in the Kenyan context. In addition, previous studies have mostly considered determinants of FDI generally without studying specific determinants. It is this gap in literature that the research seeks to link by studying the effect of cost of labour on foreign direct investments in Kenya. The study intends to answer the subsequent research question; what is the effect of cost of labour on foreign direct investments in Kenya?

1.3 Objective of the Study

The objective of this study is to determine the effect of cost of labour on foreign direct investments in Kenya.

1.4 Value of the Study

The research's validity is to become a reference document for students who may wish to venture deep into this topic, scholars, and other researchers. The researchers can as well use the topic to come up with a research gap when undertaking a research related to this topic.

The government also stands to benefit from this study as it would be able to understand the factors underlying the dismal performance in the FDI and specifically the role of cost of labour. This indeed would help it come up with marketing strategies especially under the brand Kenya initiative to actively market the country as the FDI

destination of choice while addressing the factors that would curtail this noble initiative.

The research findings will benefit international investors in making informed decisions in venturing into the Kenyan Market. Investors with an interest in the Kenyan market will be able to make informed evaluation with regard to the influence of cheap laboring foreign direct investments in the country.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter presents the hypothetical outline applied in the research and reviews previous studies done on foreign direct investments and financial performance of firms. It contains the theoretical appraisal, determinants of firms' economic stability, experimental review, conceptual framework as well as the synopsis of the literature review.

2.2 Theoretical Framework

This presents review of the relevant theories that explains the effect of cost of labor on foreign direct investments. The theories covered are; Internalization theory, eclectic model theory as well as the theory of products' life cycle.

2.2.1 Internalization Theory

The theory was established by Buckley and Casson (1976), Rugman (1981) and Hennart (1982). It asserts that proprietary controls over an indefinable, knowledge-based, firm-specific advantage are exerted at firm level of an MNC. The theory claims firms reduce their risk exposure that arises from investments in specialized assets by using vertical FDI. The theory also claims that cost benefit analysis of significant factors in the home and receiving country will conclude the company's capability to invest in a foreign country. The investment decision as explained in this theory is dependent on both the expected returns and also on a country's specific factors like political stability, demand for products, barriers to entry, cost of production and capital and economies of scale. Carbaugh (2000) explains that companies might choose to invest in countries whose raw materials and labor are cheaper when

compared to other countries so as to reduce costs. This can be in part be the reason why there is movement of direct investment to Asia more so in India and China where the cost of labor is cheaper compared to other countries in the world.

Internalization theory considers that FDI are suitable when the benefits of internalization overweight costs. MNC possess the technological or managerial knowledge as a key for success and it is also protected in its internal market. Expanding on international market implies developing of new operations and activities, but managed and controlled by the holding company. Even though this theory is more applicable to production and licensing, in term of real estate it could be interpreted through investor's intention to maintain the position and establish quality standards on the foreign market (Casson, 1983).

According to Lehman (2002) FDI can as well be used in gaining control over contributions hence closing out the new rivals. International theory concluded that companies do not outsource their processes since they want to control possible perils as well as retaining a larger market share. It is also evident that transnational firms concentrate on FDI as a strategy of acquiring and sustaining internationalization benefits. As oppose to outside markets, the company relationships, incorporation, shift pricing and economies centralization reduces cost by using FDI. This theory is relevant to this study as it explains the factors considered by an MNC before making investment decisions in foreign countries and thus affect the amount of FDI inflows into a given country.

2.2.2 Eclectic Paradigm Theory

Dunning (1993) came up with this theory that has three diverse but correlated theories. These theories are Ownership, Location and Internalization (OLI) which are

used to describe how the factors therein contribute to changes in foreign direct investments. Ownership related advantages are those provided by intangible assets. This assets must however be considered as exclusive possessions held and owned by the company and are transferable to other firms at prices that would lead to reduction of costs to the company, or would lead to the company registering high rates of return. In his arguments, Dunning (2005) argues that when all other factors are held constant, a company with a higher level of competitive advantages, in comparison with its competitors, has a higher chance in increasing its overall production and hence increasing its global presence.

Location benefits, as explained by Denisia (2010) are used to compare the different economies, as per their strengths and opportunity. The end result of this analysis is that the most suitable country is selected to be a host country for the activities of multinational firms. The correlation existing between location and ownership advantages is that when a multinational corporation is able to host itself in the most suitable economy, it is now able to engage in the exploitation of its ownership related abilities, and thus leading to the firm engaging in foreign direct investment.

Internalization establishes a need for the firm to be able to have an established business in each of the economies that the company sells its products or services. The firm must derive ways through which it can benefit further through foreign production as compared to the meager fees that are earned in international trade activities such as exporting and franchising. Dunning (2005) states that a corporation is more likely to get higher returns if, it engages in foreign production as opposed to the extension of its production rights to other countries. The eclectic paradigm is therefore in support of the establishment of production markets by a corporation through exploitation of its

competitive advantages and the selection of suitable locations. In doing this, the corporations are not only engaging in foreign direct investments but also gaining much more than their competitors.

2.2.3 Product Lifecycle Theory

Base on Vernon theory (1966), a produce in the start is formed locally and used before being sold to external markets. However, at the initial phase, the produce is not regulated. For instance, the unit cost is not initiated as well as the final stipulations of the product are not consistent. When the market insists much of product, it will be regulated. In case the local market becomes flooded, the standard product will be selling to overseas markets. At this juncture, the company starts to established new branches in areas with cheap and adequate man power where sunk-cost is lower, when the rate of rivalry becomes intensive especially when the product becomes mature. This therefore, indicates that, FDI involves phases in the product life-cycle as it heads towards maturity stage (Dunning, 1993).

The fact that Vernon's theory changes eventually over time, it is enough to say that the product life-cycle is a dynamic theory. Nevertheless, the theory is not empirically confirmed, due to the fact that a few multinational companies begin their processes locally and abroad concurrently (Chen, 1983). The theory is related to the current study as it gives reasons as to why organizations decide to become multinational corporations.

2.3 Determinants of Foreign Direct Investments

FDI involves real assets and this ensures that an investor will be active in managing the assets he is acquiring. There are various factors that make one country more attractive than the others and these factors can also vary from one period to another.

These determinants have contributed to studies on reasons behind given states being more victorious vis a vis nations in attracting FDI. Quite many researches were done to find out the features that ascertain the FDI but so far there is yet to be a definite consensus. The different approaches to the determinants of FDI do not cancel each other out but clarify diverse facets of similar phenomena (Kinuthia, 2010).

2.3.1 Cost of Labour

As instituted by Mody and Srinivasan (1998), Cost of labour cost is very vital when it comes to position deliberation, but mostly when the savings is targeting foreign markets. A lower cost of labour decreases the firm's sunk cost, when other features are kept constant. In some cases, this cheap man power translates a new move of business or part of it in overseas countries. According to the current researchers, as FDI moves to technology, Cost of labour will be out of fashion. However, a high need have informed man power will rise (Pigato, 2001). According to researchers, savings companies are so much focus onto standard man power. This is therefore, the reason why elite people are taken as employees since they are teachable and sustainable (Wheeler & Mody, 1992).

According to Charkrabarti (2001), of all controversial probable determinants of FDI, wage stood a high chance of being a superior indicator. Base on various studies and theories, it is clear that inexpensive man power has attracted a number multinationals upon by the proponents of the dependence assumption and those of the innovation assumption, though with very diverse repercussion. However, unanimity has been lack even between the reasonably small figures of learning that have discovered the position of salary in affecting FDI: results vary from higher host nation pay

disappointing inbound FDI to having no important effect or even a positive relationship.

2.3.2 Economic Growth

The importance of development in drawing FDI is rather contentious. Charkrabarti (2001) stated that the assumption of growth that was developed by Lim (2001) suggests that a rapid growth in the economy provides more profitable opportunities than those experiencing slow growth or no growth at all. Mishkin and Eakins (2009) from their research study found that growth was positively correlated with FDI while Gastanaga et al., (1998), strongly supported the hypothesis from the periods 1983 to 1986 but showed a weak link from the periods 1975 to 1978.

Contrary to the results, Aoki (2007) found a weak but positive relationship for economies of less developing countries and weak negative relationship for economies of developed countries. Asiedu (2002) found a positive relationship but with lagged growth for countries not in the Sub-Saharan Africa region, but an unimportant influence to the Sub-Saharan Africa region. Gastanaga et al., (1998) found an optimistic influence for growth on FDI.

2.3.3 Inflation

Inflation is very important in managing the macroeconomic environment and fiscal governance. Usually weighed by changes in the customer charge index which is essentially a weighted average price of goods and services consumed (CBK, 2013; Nwankwo, 2006). A high level of inflation is an indicator of tensions in the economic environment of a country and is a reflection of the government's reluctance to have a stable monetary policy. It can be argued that risk averse foreign investors coupled with high levels of inflation will lead to decreases in FDI in the host country since

investors are not willing to risk the profits that they expect from their investments (Kadongo, 2011).

Given high uncertainty levels, investors are bound to demand high price levels in order to offset their exposure to inflationary risks which are bound to lower the volume of investment. Therefore as a move to encourage investments, inflation rate stability is important (Gastanaga et al., 1998). Nwankwo (2006) emphasizes macroeconomic strategy weaknesses as deflecting FDI flows from Africa; he points that, poor monetary and fiscal policies cause unsustainable deficits in budgets and increase inflationary pressures thereby raising the production costs in the local country and thus creating instability in exchange rates and thereby the region becomes a risky destination for FDI as well as to make the region too risky as a destination for FDI. Flux in macroeconomic variables as evidenced by high inflation and extreme budget shortages, limits the country's ability to attract FDI (Onyeiwu & Shrestha, 2004).

2.3.4 Exchange Rates

Exchange rate is an essential component affecting FDI. The eventual importance of exchange rates to the location of FDI was initially suggested by Asiedu (2002). Asiedu stated that different currency areas were responsible for the generation of FDI. Dunning stated that greater fixed capital stakes of an investment showed the possibility of taking into account future movements in exchange rates (Dunning, 1993). Goldberg (2011) agrees that exchange rates volatility impact location decisions of MNCs. Other research indicates that exchange rate risk contributes significantly in explaining FDI (Gastanaga et al., 1998).

Exchange rate volatility may negatively affect and reduce direct investment. Gastanaga et al., (1998) based on an analysis of macroeconomic factors, institutional and legal frameworks and risk in determining FDI, proved that market size, fiscal deficit, inflation and exchange regime and trade openness were all significant. According to earlier research, exchange rate movements have shown to be relevant and significant to FDI because exchange rate volatility contributes directly to uncertainty in the transaction plan from the countries investing (Behera, 2008).

2.3.5 Availability of Good Infrastructure

It is habitually affirmed that good roads enlarges the output of savings and therefore encourage FDI flows (Asiedu, 2002). A study by Wheeler and Mody (1992) instituted infrastructure to be very significant and central for upcoming countries. In discussion concerning infrastructure, it ought to be well-known that this is not restricted to roads alone, but also telecommunications. Accessibility and effectiveness of telephones, for instance, is necessary to ease contact amongst the host and domicile states. Adding up to substantial infrastructure, monetary infrastructure is significant for FDI inflow.

A strongly equipped monetary market is recognized from accessible facts to allow a state to strike the full payback of FDI. Alfaro et al., (2001), applying cross-section data, found that poorly developed monetary infrastructure can negatively affect an economy's capacity to take benefit of the potential markets of FDI. In a study by Bhinda, Griffith-Jones and Martin (1999), it was instituted that tribulations connected to funds enlistment were on the precedence features listed disappointing financiers in Uganda, Tanzania and Zambia.

2.4 Empirical Review

There are numerous empirical studies both locally and internationally to support the affiliation involving exchange rates and stock market outcomes, but these studies have produced mixed results. Bende- Nabende (2008) carried out an experiential appraisal on the macro lavational determinants of FDI in Sub Saharan Africa (SSA) during the appraisal of co- amalgamation or rather long- run interaction involving FDI and its determinants. The study consists of 19 SSA countries over the 1970- 2000 era and employs both one state data and section data scrutiny strategies. The experimental proof proposes that the main central long- run determinants of FDI in SSA are market development, few barriers to export- orientation tactic and the FDI rule liberalization. They are pursued by actual efficient trade tariffs and market volume. Underneath on the list is the sincerity of the market.

Piteli (2009) analyzed the strongholds of (FDI) by multinational corporations (MNCs) in advanced economies. He evaluated by linking EU and non-EU states, in the background of an expected equation resulting from financial theory, which contrast the key requirement and supply-side determinants of FDI. The research adds to the literature in three scenarios: first, by engaging diverse alternates for demand and supply-side elements; second, by comparing among European and non-European first world nations; third, by examining for the virtual significance of total factor output (TFO) to ascertain the FDI. The outcomes are in procession with hypothetical forecast, except the significance of TFO as the determinant par distinction of FDI in industrial states.

Okafor (2012) evaluated whether home macroeconomic variables material for foreign direct savings inflow in Nigeria. He notes that economic theory forecast that foreign

capital flows could arouse financial development of countries. The empirical investigation illustrates the role of key home macroeconomic variables on Foreign Direct Investment (FDI) in Nigeria using the Ordinary Least Square (OLS) inference method. The outcome indicates that actual gross domestic intervention, interest rate, and actual exchange rate are key indicators of foreign direct investment in Nigeria. The result proposes that these local macroeconomic variables are significant to FDI inflow.

Omweri (2013) studied the determinants of overseas direct savings stock in the five states of the East African Community i.e. Kenya Uganda, Tanzania, Rwanda and Burundi, to find out why the region was recording very low increase of FDI. The study used trade openness, Gross home produce development, Gross Domestic Product per Capita, cell phone line (per 100 people); a proxy for infrastructural facilities, inflation, return on investment and natural resource endowment as independent variables and the stock of foreign direct investment as the dependent variable. Findings showed that business honesty, increase in prices, and infrastructure facilities were the most important controllers of savings to EAC countries.

Locally, Kinaro (2006) investigated the determinants of Foreign Direct Investment in Kenya. The major goal behind the research is to find out the main features that affects the FDI decisions in Kenya. These researches occupy an econometric method for scrutiny of diverse variables included in the replica. In the assessment of the lavational features of FDI inflows to Kenya, he intended foreign direct savings as the endogenous changeable in the way that exogenous variables are econometrically lapses using Eviews version 3.0. The exogenous variables comprise; man power, actual exchange rate, annual boost and integrity business.

Based on Mwege and Rose (2007) findings, through the study of 43 states alongside a Kenyan dummy, it is clear that Kenya is not finding that Kenya is not diverse from other states. Therefore, FDI is a result of development rates, expressions of trade, outside liabilities ratio and value of establishments. UNCTAD (2005) argue that Kenya's failure to impress FDI is as a result of increasing corruption amongst the governance, discrepancy in financial strategies and structural modifications, weakening civic service and meager roads and other infrastructures.

Kinuthia (2010) has given new facts to ascertain on the Foreign Direct Investment according to the study of foreign firms in Kenya in 2007. The research reveals that, a number of foreign companies are promotion firms. The study has shown that the key determinants factors are factors like market volume, political environment, as well as economic performance, bilateral business union plus a complimentary atmosphere. However, the three critical barriers of overseas savings inflow to Kenya are political volatility, rate of crime and lack of adequate security, as well as institutional issues most particularly dishonesty.

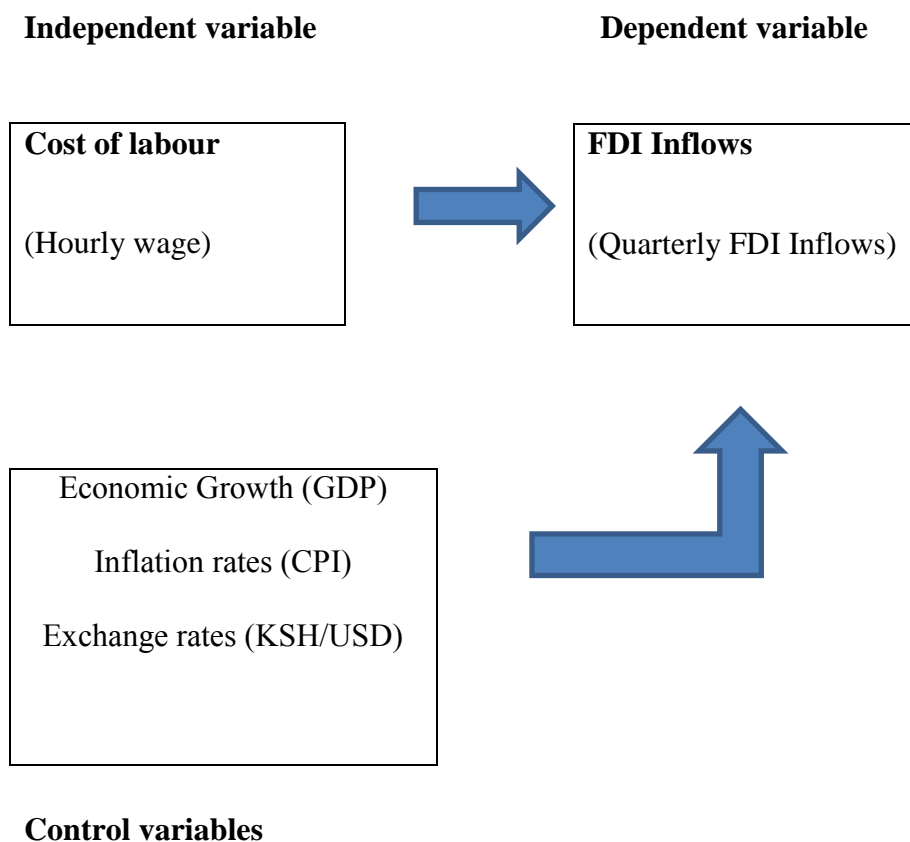
2.5 Conceptual Framework

According to Pigato (2001), adequate human resource encourages a low industrial sunk cost, when other features are kept constant. Occasionally, the accessibility of inexpensive man power translates the replacement of a part of the manufacture route in overseas states. According to the current researches, it is clear that the FDI is stirring towards technology oriented plans; rendering the inexpensive man out of fashion. Rather, there is claim for capable man power. Economically, firms that are planning to invest mostly deem the quality of labour available. According to various researchers, knowledgeable employees are in a position to move with technology

compared to the illiterate employees, making the price of maintaining them cheaper (Wheeler & Mody, 1992).

The conceptual model developed below portrays this expected relationship between the study variables. The factors characterized here are Cost of labour and foreign direct investments. The independent variable is Cost of labour as measured by natural logarithm of hourly wage. The control variables are inflation rates as measured by quarterly CPI, exchange rates as measured by quarterly exchange rate between ksh and usd and economic growth as measured by quarterly GDP. Foreign direct investment is the dependent variable which the study seeks to explain and it will be measured by quarterly FDI inflows.

Figure 2.1: The Conceptual Model



Source: Researcher (2017)

2.6 Summary of the Literature Review

This section of this study explored the various theories advanced for foreign direct investments including the Internalization theory, eclectic paradigm theory and product life cycle theory. This chapter further delineates the various determinants of foreign direct investments which include: cost of labour, economic growth, inflation rates, exchange rates, country risk and availability of good infrastructure. The chapter also presented empirical studies of the research done by other scholars on the topical area of foreign direct investment determinants both at the local and global scene. From the empirical review, it is evident that certain researches were conducted have to inspect the actual causes of overseas direct savings in the Kenyan context. In addition, previous studies have mostly considered determinants of FDI generally without studying specific determinants. The research intends to equip the study gap by examining the effect of cost of labour on foreign direct investments in Kenya.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

The chapter describes techniques of research applied to objectively establish the influence of cost of labour on overseas direct savings in Kenya. It also shows the population of study, research design, criterion used in the gathering and scrutiny of data.

3.2 Research Design

Research plan is defined as a clear copy of those events, taken on by a researcher for examining the affiliation involving dependent variables and independent variables (Khan, 2008). Descriptive cross sectional design was adopted for the study. A descriptive study involves a description of all the elements of the population. It allows estimates of a part of a population that has these attributes. Identifying relationships among various variables is possible, to establish whether the variables are independent or dependent. Cross-sectional study methods are done once and they represent summary at a given timeframe (Cooper & Schindler, 2008).

3.3 Data Specification

Data used for the study was the FDI remittances into Kenya per quarter, average hourly wage per quarter, standard trade rate per quarter, standard inflation rate per quarter and economic growth per quarter for the period between January 2007 and December 2016.

3.4 Data Collection

Data was collected exclusively from a secondary source. Quarterly data for ten years (January 2007 to December 2016) was collected and analyzed. Data for the

independent variables; hourly wage, economic growth and inflation was gathered from the Kenya National Bureau of Statistics (KNBS) while data on exchange rate was acquired from the Central Bank of Kenya. Data for the dependent variable; foreign direct investments inflows on a quarterly basis was obtained from KNBS.

3.5 Data Analysis

Analysis of the composed figures was made using both expressive and inferential statistics. The Statistical Package for Social Sciences (SPSS) version 21 computer software was applied in the examination since it is more user-friendly. The data was inputted into the SPSS and examined using descriptive, correlation and regression analyses. In descriptive statistics, the study used mean and standard deviation. In inferential statistics, the study used multivariate regression scrutiny to ascertain the correlation involving the dependent variable (foreign direct investments) and independent variables: Cost of labour, economic growth, exchange rate and inflation rate.

3.5 Diagnostic Tests

Linearity show that two variables X and Y are connected by a arithmetical equation $Y=c+bX$ where c is a stable figure. The linearity test was obtained through the scatterplot testing or F-statistic in ANOVA. Normality is a test for the assumption that the residual of the response variable are normally distributed around the mean. This was determined by Shapiro-walk test or Kolmogorov-Smirnov test. Autocorrelation is the measurement of the similarity between a certain time series and a lagged value of the same time series over successive time intervals. It was tested using Durbin-Watson statistic (Khan, 2008).

Homoskedasticity of variance is required for multiple linear regressions and therefore

is when the variance of the error term is constant over the population while the variance of y is constant and is not dependent on the x's. Otherwise, non-existence of a constant variance of the variance of error term posits heteroskedasticity. Homoskedasticity was evaluated using Cameron & Trivedi's IM-test.

Multicollinearity is said to occur when there is a nearly exact or exact linear relation among two or more of the independent variables. This was tested by the determinant of the correlation matrices, which varies from zero to one. Orthogonal independent variable is an indication that the determinant is one while it is zero if there is a total linear connected between them and as it strategies to zero then the multicollinearity becomes more intense (Burns & Burns, 2008).

3.5.2 Analytical Model

Using the collected data, the researcher conducted a regression analysis to institute the causes of cost of labour on foreign direct investments in Kenya. The study applied the subsequent regression representation:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon.$$

Where;

Y= Foreign direct investments as measured by natural logarithm of FDI inflows on a quarterly basis

α = Constant Term

β_i = Beta Coefficient of variable i which measures the change Y to change in i

X_1 = Cost of labour as measured by natural logarithm of average hourly wage on a quarterly basis

X_2 = Economic growth as measured by natural logarithm of quarterly GDP

X_3 = Exchange rate as measured by natural logarithm of average quarterly

exchange rate between USD and Ksh.

X_4 = Inflation rate as measured by natural logarithm of average CPI per quarter

ε =Error term

3.5.3 Tests of Significance

To test the statistical importance the F- test and the t – test were used at 95% confidence level. The F statistic was utilized to establish a statistical significance of regression equation while the t statistic was used to test statistical implication of study coefficients.

CHAPTER FOUR

DATA ANALYSIS, FINDINGS AND INTERPRETATION

4.1 Introduction

This chapter represents the results and findings of the study based on the research objective. The chapter focused on the analysis of the collected data from CBK and KNBS to establish the effect of cost of labour on foreign direct investments in Kenya. Using descriptive statistics, correlation analysis and regression analysis, the results of the study were presented in form of tables for easy interpretation.

4.2 Diagnostic Tests

The researcher carried out diagnostic tests on the collected data. To test for normality, the null hypothesis for the test was that the secondary data was not normal. If the p-value recorded was more than 0.05, the researcher would reject it. The results of the test are as shown in Table 4.1.

Table 4.1: Normality Test

FDI Inflows	Kolmogorov-Smirnov ^a			Shapiro-Wilk		
	Statistic	Df	Sig.	Statistic	Df	Sig.
Cost of labour	.178	40	.300	.881	40	.723
Economic Growth	.176	40	.300	.892	40	.784
Exchange rates	.181	40	.300	.896	40	.792
Inflation rates	.173	40	.300	.918	40	.822
a. Lilliefors Significance Correction						

Source: Research Findings (2017)

Both Kolmogorov-Smirnova and Shapiro-Wilk tests recorded o-values greater than 0.05 which implies that the research data was normally distributed and therefore the null hypothesis was rejected. The data was therefore appropriate for use to conduct parametric tests such as Pearson’s correlation, regression analysis and analysis of variance.

Cameron & Trivedi’s IM-test was used to test for heteroscedasticity. The null hypothesis stated that there is no heteroscedasticity. Results in Table 4.2 show that the p-value (p=0.3629) is greater than the critical value of 0.05. Therefore, we fail to reject the null hypothesis and conclude that the variance is homogenous.

Table 4.2: Cameron & Trivedi's decomposition of IM-test

Source	chi2	Df	P
Heteroskedasticity	18.42	17	0.3629

Source: Research Findings (2017)

4.4 Descriptive Analysis

Descriptive statistics gives a presentation of the mean, maximum and minimum values of variables applied together with their standard deviations in this study. Table 4.3 below shows the descriptive statistics for the variables applied in the study. An analysis of all the variables was obtained using SPSS software for the period of ten years (2007 to 2016) on a quarterly basis. FDI inflows had a mean of 6.45 with a standard deviation of 0.597. Cost of labour recorded a mean of 97.329 with a standard deviation of 3.179. Economic growth resulted to a mean of 5.894 with a standard deviation of .341. Exchange rate resulted to a mean of 81.17 with a standard deviation of 10.002 while Inflation had a mean of 8.291 and standard deviation of 4.564.

Table 4.3: Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Log FDI Inflows	40	6	8	6.45	.597
Cost of labour (sh)	40	96.761	97.900	97.329	.341
Log economic growth	40	5.780	6.022	5.894	.0761
Exchange rate (ksh/usd)	40	63	104	81.17	10.002
Inflation rate (%)	40	2.714	19.187	8.291	4.564
Valid N (listwise)	40				

Source: Research Findings (2017)

4.4 Correlation Analysis

Pearson correlation was employed to analyze the level of association between FDI inflows and the independent variables for this study (cost of labour, economic growth, foreign exchange rates and inflation rates). From correlation analysis, the study showed the existence of a weak strong and significant correlation between cost of labour and FDI inflows into the country ($p = -.503$, $p > .001$). This goes to show that the cost of labour in a country has a significant association with FDI inflows into the country. The relationship between economic growth and FDI inflows was found to be

weak and positive ($p=.495$, $p>0.001$). This implies that movement in economic growth is positively correlated to FDI inflows and in a significant manner. The study also showed that there exist a strong positive correlation between exchange rates and FDI inflows ($p=.519$, $p>.001$). This shows that exchange rates have a strong positive association with FDI inflows and the association is significant. Although the independent variables had an association to each other, the association was not strong to cause Multicollinearity as all the r values were less than 0.70. This implies that there was no Multicollinearity among the independent variables and therefore they can be used as determinants of FDI inflows into the country in regression analysis.

Table 4.4: Correlation Analysis

		FDI Inflows	Cost of labour	Economic growth	Exchange rate	Inflation rate
FDI Inflows	Pearson Correlation	1				
	Sig. (2-tailed)					
	N	40				
Cost of labour	Pearson Correlation	-.503**	1			
	Sig. (2-tailed)	.001				
	N	40	40			
Economic growth	Pearson Correlation	.495**	-.991**	1		
	Sig. (2-tailed)	.001	.000			
	N	40	40	40		
Exchange rate	Pearson Correlation	.519**	-.892**	.910**	1	
	Sig. (2-tailed)	.001	.000	.000		
	N	40	40	40	40	
Inflation rate	Pearson Correlation	-.203	.063	-.110	.029	1
	Sig. (2-tailed)	.210	.698	.498	.860	
	N	40	40	40	40	40

** . Correlation is significant at the 0.01 level (2-tailed).

Source: Research Findings (2017)

4.5 Regression Analysis

FDI inflows were regressed against four predictor variables; cost of labour, economic growth, foreign exchange rates and inflation rates. The study obtained the model summary statistics as shown in table 4.5 below.

Table 4.5: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.616 ^a	.379	.308	.497	1.749

a. Predictors: (Constant), Inflation rate, Exchange rate, Cost of labour,

Economic growth

b. Dependent Variable: FDI Inflows

Source: Research Findings (2017)

From the outcome in table 4.5 above, the value of R square was 0.379, a discovery that 37.9 percent of the deviations in FDI inflows into the country is caused by changes in cost of labour, economic growth, exchange rates and inflation rates. Other variables not included in the model justify for 62.1 percent of the variations in FDI inflows to the country. Also, the results revealed that there exists a strong relationship among the selected independent variables and FDI inflows as shown by the correlation coefficient (R) equal to .616. A durbin-watson statistic of 1.749 indicated that the variable residuals were not serially correlated since the value was more than 1.5.

Table 4.6: Analysis of Variance

Model	Sum of Squares	Df	Mean Square	F	Sig.
1 Regression	5.270	4	1.318	5.344	.002 ^b
Residual	8.630	35	.247		
Total	13.900	39			

a. Dependent Variable: FDI Inflows

b. Predictors: (Constant), Inflation rate, Exchange rate, Cost of labour, Economic growth

Source: Research Findings (2017)

The significance value is 0.002 which is less than $p=0.05$. This implies that the model was statistically significant in predicting how cost of labour, economic growth, exchange rates and inflation rates affect FDI inflows in the country. Given 5% level of significance, critical value from the table is 2.324, table 4.6 above shows computed F value as 5.344. This confirms that overall the multiple regression model is statistically significant, in that it is a suitable prediction model for explaining how cost of labour, economic growth, exchange rates and inflation rates affects FDI inflows in the country.

Table 4.7: Model Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.	
	B	Std. Error	Beta			
1	(Constant)	472.329	249.457		1.893	.067
	Cost of labour	-3.699	1.976	-2.115	-1.872	.070
	Economic growth	-18.553	10.071	-2.366	-1.842	.074
	Exchange rate	.048	.021	.797	2.213	.034
	Inflation rate	-.046	.021	-.353	-2.248	.031

a. Dependent Variable: FDI Inflows

Source: Research Findings (2017)

The study applied t-test to determine the significance of individual variables applied in this study as predictors of FDI inflows in the country. The p-value under sig. column was used as an indicator of the significance of the relationship between the dependent and the independent variables. At 95% confidence level, a p-value of less than 0.05 was interpreted as a measure of statistical significance. As such, a p-value above 0.05 indicates a statistically insignificant relationship between the dependent and the independent variables. The results are as shown in table 4.7

From the above results, it is evident that only exchange rate and inflation rate are significant determiners of FDI inflows as shown by p values less than 0.05.

The following regression equation was estimated:

$$Y = 472.329 + 0.048X_1 - 0.046X_2$$

Where,

Y = FDI Inflows

X₁ = Exchange rates

X₂ = Inflation rates

On the estimated regression model above, the constant = 472.329 shows that if selected dependent variables (foreign exchange rates and inflation rate) were rated zero, FDI inflows would be 472.329. A unit increase in exchange rates would lead to an increase in FDI inflows in the country by 0.048 while a unit increase in inflation would lead to a decrease in FDI inflows in the country by 0.046 respectively.

4.7 Discussion of Research Findings

The study sought to determine the effect of cost of labour on FDI inflows in the country. The independent variable was cost of labour as measured by hourly wage on a quarterly basis. The control variables were economic growth as measured by quarterly GDP, exchange rates as measured by quarterly exchange rate between Ksh and USD and inflation rates as measured by quarterly CPI. FDI inflows were the dependent variable which the study sought to explain and it was measured by quarterly FDI inflows in Kenya. The effect of each of the independent variables on the dependent variable was analyzed in terms of strength and direction.

The Pearson correlation coefficients between the variables revealed existence of a strong negative and significant correlation between cost of labour and FDI inflows into the country. The relationship between economic growth and FDI inflows was found to be weak and positive. The study also showed that there exist a strong positive correlation between exchange rates and FDI inflows. The results also revealed a weak negative and insignificant correlation between inflation rates and FDI inflows in the country.

The model summary revealed that the independent variables: cost of labour, economic growth, exchange rates and inflation explains 37.9% of changes in the dependent variable as indicated by the value of R^2 which implies that there are other factors not included in this model that account for 62.1% of changes in FDI inflows in Kenya. The model was found to be fit at 95% level of confidence since the F-value of 5.344 is higher than the critical value. This implies that overall the multiple regression model is statistically significant, in that it is a suitable prediction model for explaining FDI inflows in Kenya.

The findings of this study are in agreement with Kinaro (2006) who investigated the determinant factors of Foreign Direct Investment in Kenya. Identifying the key factors that influence FDI decisions in Kenya was the main objective of the study. In analyzing the various variables included in the model, the researcher used econometric technique. In the examination of the locational factors of FDI inflows to Kenya, was proposed Human capital, real exchange rate, annual inflation and openness of the economy are exogenous variables. Johansen co integration technique was used to ascertain the co-integration of the series and it was robust. FDI is affected positively in the short run economic openness and human capital as per the findings. In addition, both inflation and real exchange rate impact negatively on FDI inflows in the short and long run respectively.

The study is also in agreement with Okafor (2012) who evaluated whether home macroeconomic variables material for foreign direct savings inflow in Nigeria. He notes that economic theory forecast that foreign capital flows could arouse financial development of countries. The empirical investigation illustrates the role of key home macroeconomic variables on Foreign Direct Investment (FDI) in Nigeria using the Ordinary Least Square (OLS) inference method. The outcome indicates that actual

gross domestic intervention, interest rate, and actual exchange rate are key indicators of foreign direct investment in Nigeria. The result proposes that these local macroeconomic variables are significant to FDI inflow.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter shows the summary of research findings, the conclusions made from the results, and the recommendations for policy and practice. The chapter also discusses limitations encountered as well as suggestions for future research.

5.2 Summary of Findings

The study sought to investigate the effect of cost of labour on FDI inflows in Kenya. The independent variables for the study were cost of labour, exchange rates, economic growth and inflation. The study adopted a descriptive research design. Secondary data was obtained from CBK and KNBS and was analyzed using SPSS software version 21. The study used quarterly data covering a period of ten years from January 2007 to December 2016.

From the results of correlation analysis, a strong negative and significant correlation between cost of labour and FDI inflows into the country was observed. The relationship between economic growth and FDI inflows was found to be weak and positive. The study also showed that there exist a strong positive correlation between exchange rates and FDI inflows. The results also revealed a weak negative and insignificant correlation between inflation rates and FDI inflows in the country.

The co-efficient of determination R-square value was 0.379 which means that about 37.9 percent of the variation in FDI inflows in Kenya can be explained by the four selected independent variables while 62.1 percent in the variation of FDI inflows in Kenya is associated with other factors not covered in this research. The study also

found that the independent variables had a strong correlation with FDI inflows in Kenya ($R=0.616$). ANOVA results show that the F statistic was significant at 5% level with a $p=5.344$. Therefore the model was fit to explain the relationship between the selected variables.

The regression results show that when all the selected dependent variables (cost of labour, economic growth, exchange rates and inflation) are rated zero, FDI inflows in Kenya would be 472.329. A unit increase in cost of labour would lead to a decrease in FDI inflows in the country by 3.699. A unit increase in exchange rates would lead to an increase in FDI inflows in the country by 0.048 while a unit increase in economic growth and inflation would lead to a decrease in FDI inflows in the country by 18.553 and 0.046 respectively.

5.3 Conclusion

From the study findings, the study concludes that FDI inflows in Kenya have a negative association with cost of labour. The study therefore concludes that higher cost of labour lead to reduced FDI inflows in the country even though not to a significant extent. Exchange rates were also found to be positively related to FDI inflows in the country and therefore an increase in exchange rates leads to an increase in FDI inflows in Kenya. The study found that inflation rate and economic growth had a negative correlation with FDI inflows in the country and we can therefore conclude that higher inflation rates and economic growth tend to discourage foreign direct investment inflows in Kenya.

This study concludes that independent variables selected for the study cost of labour, economic growth, exchange rates and inflation influence FDI inflows in the country to a significant extent as they account for 37.9 percent of the changes in FDI inflows

in the country. The fact that the four independent variables explain 37.9% of changes in FDI inflows in Kenya imply that the variables not included in the model explain 62.1% of changes in FDI inflows in the country. The overall model was found to be significant as explained by the F statistic. It is therefore sufficient to conclude that these variables significantly influence FDI inflows in the country as shown by the p-value in ANOVA summary.

This finding concurs with Kinaro (2006) who investigated the determinant factors of Foreign Direct Investment in Kenya. Identifying the key factors that influence FDI decisions in Kenya was the main objective of the study. In analyzing the various variables included in the model, the researcher used econometric technique. In the examination of the locational factors of FDI inflows to Kenya, was proposed Human capital, real exchange rate, annual inflation and openness of the economy are exogenous variables. Johansen co integration technique was used to ascertain the co-integration of the series and it was robust. FDI is affected positively in the short run economic openness and human capital as per the findings. In addition, both inflation and real exchange rate impact negatively on FDI inflows in the short and long run respectively.

5.4 Recommendations

The study established that although there is a negative influence of cost of labour on FDI inflows in the country, the influence is not statistically significant. This study recommends that there is need for policy makers to regulate the hourly wage prevailing in the country bearing in mind that they influence FDI inflows in the country.

The study found that exchange rates have a positive influence on FDI inflows in the country. This study recommends that policy makers should regulate prevailing exchange rates as depreciation in exchange rates may lead to decreased FDI inflows into the country. Appreciation of the local currency or having a currency that is relatively stable will positively impact on FDI inflows into the country and this will be associated with the benefits of FDI such as technological advancements and increase in gross domestic product.

Inflation rate was found to have a negative relationship with FDI inflows in the country. This study recommends that policy makers should pay attention to the prevailing rates of this variable as it can negatively affect FDI inflows in the country. Increase in inflation leads to decreased purchasing power of the currency and this may make investors to shy away from investing in such a country.

5.5 Limitations of the Study

The scope of this research was for ten years 2007-2016. It has not been determined if the results would hold for a longer study period. Furthermore it is uncertain whether similar findings would result beyond 2016. A longer study period is more reliable as it will take into account major economic conditions such as booms and recessions.

One of the limitations of the study is the quality of the data. It is difficult to conclude from this research whether the findings present the true facts about the situation. The data that has been used is only assumed to be accurate. The measures used may keep on varying from one year to another subject to prevailing condition. The study utilized secondary data, which had already been obtained and was in the public domain, unlike the primary data which is first-hand information. The study also considered

selected determinants and not all factors affecting FDI inflows mainly due to limitation of data availability.

For data analysis purposes, the researcher applied a multiple linear regression model. Due to the shortcomings involved when using regression models such as erroneous and misleading results when the variable values change, the researcher cannot be able to generalize the findings with certainty. If more and more data is added to the functional regression model, the hypothesized relationship between two or more variables may not hold.

5.6 Suggestions for Further Research

This study focused on cost of labour and FDI inflows in Kenya and relied on secondary data. A research study where data collection relies on primary data i.e. in-depth questionnaires and interviews covering the different sectors that receive FDI is recommended so as to complement this research.

The study was not exhaustive of the independent variables affecting FDI inflows in Kenya and this study recommends that further studies be conducted to incorporate other variables like money supply, interest rates, technological advancement, education levels, political stability and other macroeconomic variables. Establishing the effect of each variable on FDI inflows will enable policy makers know what tool to use when controlling FDI inflows.

The study concentrated on the last ten years since it was the most recent data available. Future studies may use a range of many years e.g. from 1970 to date and this can be helpful to confirm or disapprove the findings of this study. The study limited itself by focusing in Kenya. The recommendations of this study are that further studies be conducted on other contexts such as other East Africa countries.

Finally, due to the shortcomings of regression models, other models such as the Vector Error Correction Model (VECM) can be used to explain the various relationships between the variables.

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Appendix I: Research Data

Year	Quarter	FDI Inflows	Cost of labour	Economic growth	Exchange rate	Inflation rate
2007	March	6.244	97.900	5.780	72.351	8.430
	June	6.312	97.871	5.785	72.436	4.328
	Sep	6.198	97.841	5.791	72.973	4.876
	Dec	6.232	97.812	5.791	70.455	6.587
2008	March	6.337	97.783	5.796	69.684	3.352
	June	6.492	97.753	5.803	67.279	2.714
	Sep	6.395	97.724	5.804	67.156	5.345
	Dec	6.254	97.695	5.806	64.738	5.632
2009	March	6.182	97.665	5.799	67.462	10.489
	June	6.244	97.636	5.808	62.953	17.437
	Sep	6.423	97.607	5.810	69.757	15.880
	Dec	6.549	97.577	5.807	78.415	16.573
2010	March	6.260	97.548	5.847	79.887	14.136
	June	6.175	97.519	5.852	78.056	10.604
	Sep	6.226	97.490	5.859	75.946	9.756
	Dec	6.667	97.460	5.861	75.322	7.979
2011	March	6.422	97.431	5.869	76.705	5.535
	June	6.651	97.402	5.882	79.643	3.674
	Sep	6.534	97.373	5.898	80.693	3.329
	Dec	6.527	97.343	5.908	80.838	3.843
2012	March	6.185	97.314	5.907	82.208	7.049
	June	6.624	97.285	5.911	86.329	13.163
	Sep	6.423	97.256	5.918	94.851	16.512
	Dec	6.184	97.227	5.929	91.522	19.187
2013	March	6.179	97.198	5.926	83.538	16.857
	June	6.527	97.168	5.928	84.758	11.765
	Sep	8.109	97.139	5.936	84.606	6.373
	Dec	6.660	97.110	5.953	85.714	3.526
2014	March	6.899	97.081	5.950	86.495	4.079

Year	Quarter	FDI Inflows	Cost of labour	Economic growth	Exchange rate	Inflation rate
	June	6.492	97.052	5.954	84.984	4.367
	Sep	6.472	97.023	5.964	87.174	6.996
	Dec	6.424	96.994	5.972	86.150	7.422
2015	March	6.271	96.965	5.970	86.334	6.776
	June	6.522	96.935	5.977	87.432	7.033
	Sep	6.798	96.906	5.982	88.492	7.537
	Dec	6.488	96.877	5.990	90.043	6.176
2016	March	6.623	96.848	5.992	91.811	5.817
	June	6.595	96.819	6.002	97.007	6.994
	Sep	7.507	96.790	6.008	103.895	6.142
	Dec	6.575	96.761	6.022	102.075	7.351