

**FACTORS THAT INFLUENCE PERFORMANCE OF FOREIGN OWNED
PRIVATE UNIVERSITIES IN KENYA**

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SCHOOL OF BUSINESS

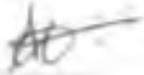
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DECLARATION

This Research Project is my original work and has not been presented for a degree in any other university.

Signed:  Date: 15/11/08

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This Research Project has been submitted for examination with my approval as University Supervisor

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DEDICATION

This work is dedicated to God the Almighty for being my rock in the changing circumstances of life. It is also dedicated to my dad Mwalimu Kinuthia for having high expectations for me, My mum for her constant prayers and wise counsel, My brothers and sisters for being a constant inspiration to me; you guys keep me going; to my Daughters Lily-Joy and Abigail who had to endure time without mum to allow her time to read and most of all to my Husband Jeff for keeping his promise to see me through this academic journey
I love you all!

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Acronyms

FDI	Foreign Direct Investments
MNC'S	Multinational corporations
IT	Information Technology
OECD	Organization of Economic Co-operation and Development.
USIU	United States international University
DU	Daystar University
DUAA	Daystar University Alumni Association
AKU	Aga Khan University
CUEA	Catholic University of East Africa
WASC	Western Association of Schools and Colleges.
USA	United States of America
FOPU	Foreign Owned Private Universities
ICT	Information and Communications Technology
HELB	Higher Education Loans Board

ABSTRACT

This research set out to find out the factors that affect the performance of foreign owned private universities in Kenya. At the time of starting the survey four such institutions had been identified for purposes of the survey. These were, Aga Khan University, Catholic University Of Eastern Africa, Daystar University and United States International University. In the course of collecting raw data, it was established that two of the universities even though once were foreign investments, are no longer foreign owned. These are, Daystar University and United States International University. The research was however still relevant to the two universities as they were initially foreign owned.

Data was collected through interviews with senior university officials from three of the universities. Officials from the fourth university declined to take part in the study. The researcher therefore relied on information from the university's strategic plan.

The results of the study indicate that location on Kenya was largely influenced by a stable political and social climate, existence of a high demand for tertiary education, a desire to serve the community and to support government initiative in raising the standards of living. These same factors have also continued to positively influence the performance of the universities. Other supporting factors are the ability of the universities to be financially self sufficient. Finances are mainly from the fee payment, any foreign grants usually end up as bursary payments for the less financially able students. Student loans granted by the Higher Education Loans Board (HELB) and the Government waiver on VAT on construction materials are other factors that have positively influenced performance of the university.

Factors identified to be hindering or negatively affecting performance of Foreign owned private universities include, lack of proper infrastructure such as roads and ICT connectivity, lack of government policy regarding private university education as a whole, lack of any funding from the Ministry of Education to facilitate research and the travel advisories issued against Kenya tends to interfere with the universities exchange programs.

This research had several limitations. These include, the unavailability of the topmost university officials to handle some of the questions especially regarding location decisions, the sensitivity or secrecy surrounding financial information, suspicion by a few officials as to why a public university student was investigating performance of private universities and the outright refusal by officials in one of the universities to take part in the research.

The researcher recommends further research into the reasons that lead to once foreign owned universities ending up being Self owned or locally owned. Further research should also be carried out to establish the factors affecting performance of locally owned as well as the church owned private universities in Kenya.

CHAPTER ONE

INTRODUCTION

1.0 BACKGROUND

For Kenya or any other developing country to attain the desired economic development, it needs foreign investors. Such foreign investors are in the form of multinational corporations (MNC'S) and private businesses. MNC'S are firms that have opened up production activities in more than two countries. Foreign Investors carry out Foreign Direct Investment (FDI).

The economic policy strategy currently pursued by many African countries is explicitly intended to improve conditions for FDI. Over the past two decades many African countries have implemented broad ranging economic reforms, including the liberalisation of domestic markets and some privatisation, which has had an effect on the flow and nature of foreign investment. (Jenkins 2002)

According to Jenkins (2002), benefits of FDI include capital inflow into the host country, increased employment to the citizens of the host countries, for example Aaron (1999) indicates that in 1997, FDI was directly responsible for creation of 26 million jobs. Other benefits are the development of human capital, the implementation of internationally acceptable code of employment practices, enhanced management practices, transfer of technology and spill over effects on local firms through supply and distribution chains of trading and outsourcing.

There is evidence to suggest that FDI also contributes to raising exports, positively affecting the balance of payment position and integrating the host country into global economic networks (Todd Moss and Vijaya, 2005).

Out of recognition for these benefits, most low income countries have liberalized the environment for FDI by allowing foreigners into previously restricted sectors such as telecommunications and by creating inducements. Inducements include tax holidays, easing of import and custom controls, infrastructure investment and labour law reforms.

1.1 Factors influencing FDI

Kenya is one of the developing countries that have actively encouraged foreign investments. Indeed as an investment destination for university education it has the required factors whether by default or by design. In the context of provision of University education, factors would include: students capable of paying fees, a constant supply of students both local and international, availability of lecturers, availability of official support services, availability of the proper infrastructure like buildings and communication facilities and ease of transport facilities and accessibility.

At a macro economic level, there are factors that encourage FDI especially undertaken by MNC's. These include;

Political stability which enables businesses to operate in a stable environment. They are able to make plans for the future without threat of appropriation or nationalistic campaigns Todd M (2004); Presence of cheap and/or skilled labour force. Wheeler and Moody (1992) noted that low labour costs have a positive impact on FDI. These invite foreign firms to take advantage of the cheap labour and to use the skilled manpower and administrative staff available in Kenya. Asiedu (1985), notes that Gross Domestic Product per person (GDP per capita) is found to have a positive relationship with FDI.

In a study of FDI in Africa, Ngowi (2001) cites the following as possible factors that firms will consider when deciding whether or not to invest in a particular country;

A stable and predictable political environment, favourable macroeconomic indicators such as good performance of economic growth, stable inflation rates, low budgets deficits; favourable exchange rates, the quality of infrastructure, roads, communication networks, transport networks and electric power; the availability and quality of natural resources; the size, openness and competitiveness of the domestic market; well functioning and transparent financial markets; low transactions and business costs, including trade and labour regulations, rules of entry and exit into markets; favourable tax structure and an effective and dependable legal system.

1.2 : Private Universities in Kenya

The establishment of private universities in Kenya is done under the guidance of The Commission of Higher Education (CHE). The Commission was established by an act of parliament, the Universities Act (Cap 210B of 1985). Its functions among others were; harmonization of university education, advice on the establishment of University institutions, accreditation, and coordination of education and training courses offered in post secondary institutions for the purpose of higher education and university admissions. (Daily Nation April 22 2008)

The 1990's witnessed the establishment and accreditation of private universities in Kenya. Some of them are foreign owned, others are joint ventures between Kenyan individuals or institutions and foreigners, yet others are solely owned by Kenyan nationals. Among the foreign owned ones are Private /joint venture universities. These are shown on Table 1 below.

Table 1: Foreign/jointly owned Private Universities

Name of Universities	Ownership
University of Eastern Africa Baraton -UEAB	Joint
Catholic University of Eastern Africa-CUEA	Foreign
Daystar University -DU	Ex-Foreign
United States international University-USIU	Ex-Foreign
Africa Nazarene University- ANU	Joint
Aga Khan University – AKU	Foreign
Strathmore University - SU	Joint
Kenya Methodist University - KEMU	Joint
Scott Theological University -STU	Joint

Source Researcher

The other category of Private universities in Kenya are the locally owned by Kenyan nationals and those owned by religious bodies. Religious bodies are mainly churches which have had a

long history of providing education since the colonial era in Kenya. These include the following as shown on Table 2.

Table 2 Locally owned and religious based private universities

Name of Universities	Ownership
Kiriri Women's University of Science and Technology	Local
Kabarak University	Local
Pan Africa Christian University	Religious
St. Paul's Theological University	Religious
Nairobi Evangelical Graduate School of Theology	Religious
Kenya Highlands Bible College	Religious
Nairobi International School of Theology	Religious
Great Lakes University of Kisumu	Local
Kenya College of Accountancy University	Local

Source: Researcher

The thrust of this study is in international business. It aims to look at the issue of Foreign Direct Investment in University Education in Kenya. Four universities have been established to be purely foreign owned. The researcher will therefore concentrate on these four universities. These include: Aga Khan University (AKU), United States International University (USIU), Catholic University of Eastern Africa (CUEA) and Daystar University (DU).

1.3 University Education as a form of FDI

FDI reflects the objective of obtaining lasting interest by a resident entity in one economy other than that of the investor. (OECD Report 1996) The lasting interest implies the existence of a long term relationship between the direct investor and the enterprise and a significant degree of influence on the management of the enterprise. Investment in education by foreign owned universities falls under FDI in Services. As with FDI in goods, FDI in services occurs to exploit a profit potential that cannot be captured within one own's country.

FDI is driven by MNC'S as well as by private Individual businesses. In University education we have Ex-foreign owned universities such as United States International University (USIU) which has it's roots in America. Currently however it has moved to being self owned.

Aga Khan University (AKU) is another example of a service providing multinational other Aga Khan Universities located in Pakistani, Kenya, Uganda, Tanzania United Kingdom amongst other places. The Global headquarters of the Aga Khan Foundation are located in Eg'lemore in France.(Daily Nation April 2008)

Daystar University (DU) is also an example of a previously foreign owned institution. It was founded in Bulawayo, Zimbambwe by Motsoko-Pheko, a political refugee from South Africa and Dr. Donald Smith and Mrs Faye smith, an American missionary couple. At the time it was a mostly concerned with publishing. Due to war in Zimbambwe, Daystar Publishing moved to Nairobi Kenya. Today it has links with Whitton University in the United States of America, and operates as a fully fledged university in Kenya. Ownership is now moving from foreign owned towards being self owned. It also operates in partnership with other universities in the world to offer exchange programs to interested students.

Catholic University of East Africa (CUEA) is an investment by the Catholic Church under the auspicious of the Association of the Members of the Episcopal Conference of East Africa (AMECFA)

1.4: Statement of the problem

In all countries, people think of education as a main avenue for jobs and careers. Nzomo (2003)

The demand for university education in Kenya will continue to increase partly due to growth in secondary education and the demand for specialized manpower to meet the needs of a growing economy. The demand for higher education far outstrips the available places in public universities. For example, out of the 2007 KCSE class of over 60,000 students, only 16,000 would be absorbed into the public universities. (Daily Nation April 9 2008)

One of the recommendations of the Kamunge report (1988), was that "establishment of private and harambee universities should be encouraged but controlled and guided to ensure that they offer courses relevant to the needs of Kenya and maintain acceptable standards." This was because of the shortage in university spaces in comparison to the demand for university education. To compound this problem was the fact that university admissions were tied up to the accommodation available in the public universities. Another serious problem identified in 1998 by the Koech report was lack of qualified and experienced university teachers and trainers especially in professional areas such as medicine, architecture, veterinary medicine and Law.

Access to efficient and high quality services such as University education is the basis for the productivity and competitiveness of firms and industries as well as for the standards of living for people in an economy.(UNCTAD 2002). FDI is one such way of acquiring such quality education. One of the best performing examples of FDI in Africa has been the huge growth in the Kenyan Flower exports. (World Trade Net 2008) Even though this is an agricultural good the factors that have contributed to it's good performance such as a robust tourism sector, easy accessibility to overseas markets and fast travel and transport services could also contribute to the performance of foreign owned University Education in Kenya. Not much study has however been done in this area. This study sets out to explore those factors that have been critical to the performance of foreign owned private universities in Kenya.(FOPU)

1.5: Research Objectives.

The objectives of the study are to:

- i) To determine factors that influence performance of FOPU'S in Kenya
- ii) To determine strategies of enhancing performance of FOPU'S in Kenya.

1.6: Significance of the Study.

This study is relevant to potential investors in Private University education especially to Kenyans considering investing in the area. It is also relevant to management of Public universities as they stand to gain if they would adopt any best practices identified within the course of the study. This is especially the case when considering the implementation of the parallel program which is in reality a way of partly privatizing public universities.

Another group of Beneficiaries are potential investors in higher education and the governments of Southern Sudan and Rwanda that are rebuilding their education systems after many years of civil strife. Finally this study aims at contributing further to the body of knowledge already available in the ever changing arena of International business.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

Chapter two provides an overview of the literature review relevant to FDI. This includes the developmental theory of Multinationals, Dunning's Eclectic theory of International Production, FDI in Kenya, Determinants of FDI, Factors influencing investor decisions and Barriers to FDI. In all the subtopics, the literature will be related to operations of FOPU'S in Kenya.

2.1: Theories of FDI

Early studies of MNC'S production were based on neoclassical theories of international capital movement and trade within a Heckscher- Ohlin Framework. In this model, comparative advantage derives from differences in relative factor endowments across countries and relative factor intensities across industries. The theories however could not provide a satisfactory answer as to the nature and patterns of FDI, both because of the assumption of the existence of perfect factor and goods markets and because FDI differs on several important respects from other international capital

2.1.1 The Developmental Theory of Multinationals.

The development of theory of Multinationals has followed 2 main approaches. These are:

The location Theory that deals with the reasons underlying the choice of host country for overseas investment and The Industrial organization Theory which is concerned with successful competition between domestic producers and foreign firms.

Location specific advantages offered by a host country include: access to local and regional markets, availability of comparatively cheap factors of production, competitive transportation

and communication costs, the opportunity to circumvent import restrictions and investment incentives offered by host country (Cherry 2001)

In the Industrial organization theory, the existence of firm- specific advantages are important in conferring competitive edge of a foreign firm wishing to produce in rival markets at home and abroad (Hymer 1976). These include: advanced technologies, research and development capabilities, superior managerial, administrative and marketing skills, access to low cost funding either internal to the firm or due to its better credit rating as well as interest and exchange rate differentials.

2.1.2: Dunning's Eclectic Theory of International Production

Dunning (1977; 1993) suggests that the main factors that drive FDI inflows have been the need to secure market access, the opportunities presented by large scale privatization process and the degree of political and economic stability. The eclectic paradigm of Dunning, also known as OLI proposes that the undertaking of FDI is determined by the realization of three groups of advantages. These are ownership, location and internalization advantages.

Ownership advantages accrue from the fact that MNC'S possess higher than average levels of assets having the character of internal public goods. These assets can be applied to production at different locations without reducing their effectiveness. Examples include product development, managerial structures, patents and marketing skills, all of which are also called headquarter services. Helpman (1984). They also arise from the firm's size and access to markets and resources, the firm's ability to coordinate complementary activities like manufacturing and distribution and the ability to exploit differences between countries.

Location advantages: This relates to the reasons underlying the choice of host country for overseas investment. These include differences in country's natural endowments, transport costs, macroeconomic stability, cultural factors and government's regulations. The underlying factor is that location of production abroad must yield advantages such as lower production costs or avoidance of trade costs. Kenya as a host country for FOPU'S is endowed with large numbers of students seeking tertiary education. According to the Daily Nation (April 2008), out of the over

46,700 student who attained a grade of B- which is a minimum requirement for placement in a public university, only 16,000 can gain admission into public universities. The remainder will either pursue tertiary education abroad or be absorbed by the private universities. Another location advantage is that the government has friendly policies towards investment in private universities through the granting of charters and work permits to expatriates workers.

Internalization incentives: This arises from exploiting imperfections in external markets. These include the reduction of uncertainty and transaction costs in order to generate knowledge more efficiently and the reduction of state generated imperfections for example tariffs, foreign exchange controls and subsidies.

Dunning further identifies four (4) main categories of motivation for investment abroad by MNC'S from industrialized countries. These are; resource seeking, market seeking, efficiency seeking and strategic asset or capability seeking. A firm may be influenced by more than one of these motives and the motivation for foreign operation may change over time.

Resource seeking investors will locate operations so as to secure a more stable or cheaper supply of inputs, generally raw materials and energy sources as well as factors of production. The main aim is to reduce production costs and enhance competitiveness in the domestic as well as foreign markets. In the case of University education the inputs would include relatively cheap but qualified human resource in form of university lecturers and officials.

Market seeking investors attempt to defend market positions already established through exporting or by opening up new markets for their goods and services in the host countries and even neighbouring countries. FOPUS in Kenya have developed new products such as evening classes, distance learning education as well as recruiting students from neighbouring countries such as Sudan and Ethiopia. In fact DU boasts of having a student enrolment from over 40 different nationalities.

Efficiency seeking investors attempt to rationalize their activities aiming to produce in as few countries as possible, each with its own advantages in terms of location, endowments and

government initiatives so as to service a larger number of markets. This particular aspect can be identified in the location decisions of Aga Khan University which has its medical University in Nairobi next to Aga Khan hospital, the Aga Khan University in Dar-es-salaam concentrates on Education maybe in recognition that there is a strong tradition of university education in the field of education in Tanzania as a result of the early location of the University of Dar- es- salaam.

Strategic Asset or capacity seeking firms do so in order to maintain the firm's international position with less concern about any particular advantages of a specified host country. Daystar University and United States International University though concerned with alleviating Brain Drain from the county are also in partnership with other universities around the world. They offer exchange programs to interested students and will also engage in credit transfers. USIU is also accredited by the Western Association of Schools and Colleges (WASC) which is an accreditation body in the USA. This ensures that the University's qualification is recognized internationally.

2.2 : FDI in Kenya

"FDI plays a significant role in the development process of host economies. In addition to providing capital inflows, FDI is a vehicle for obtaining foreign technology, knowledge, managerial skills and other important inputs for integration into international marketing, distribution and production networks, and for improving the international competitiveness of firms and economic performance of countries" (President Mwai Kibaki, 17th June 2005).

Foreign investments also provide the best examples for best practices, thus encouraging a rise in the productivity of local businesses. The opportunity to sell inputs to foreign-owned firms also encourages local companies to raise their quality levels and delivery reliability as well as utilization of available local resources. FDI also improves economic growth by increasing competition in sectors previously dominated by local monopolies. A good example is the increased investment in the telecommunications sector in Kenya following the entry of the foreign mobile phone companies. In addition, most foreign investments are export oriented. For instance, MNC'S often account for a significant share of host country exports in terms of foreign

exchange earnings. As MNC'S seek to increase their profit margins, the competitiveness of the investment environment becomes crucial. This is a clear indication of the prevailing government policy to attract foreign investors. However this has not always been the case and evidence suggest otherwise.

The level of FDI in Kenya has been fluctuating in its contribution to the Gross Domestic Product (GDP) over the years as can be seen in Table 3

Table 3: FDI IN KENYA

Year	1970	1975	1980	1985	1990	1995	2000	2003
Foreign direct investment (FDI) (Percent of GDP)	0.86	0.53	1.09	0.47	0.67	0.36	1.22	0.57

Source: World Bank

From the table it is clear that there have been fluctuations in the percentage of GDP derived from FDI in Kenya. The highest figure was recorded in 2000 at 1.22%. The lowest figure was recorded in 2005 at 0.36. These fluctuations could be due to different factors that have direct influence on FDI and are discussed in the following section.

2.3: Determinants of FDI

Mowatt and Zulu (1999), report that regional investors are generally informed about the different economic and other conditions that exist across the region. Some of the factors that influence businesses to locate in more than one country include:

Political stability, most businesses prefer to locate in politically stable countries and will tend to avoid politically unstable countries or where there is possibility of military action. Hess(2000) notes that, unstable political and economic environments tend to be undesirable for FDI. Such environments lead to inefficiencies and cumbersome bureaucracies which can breed corruption. Political upheavals, civil wars and poor governance can cause FDI capital to take flight.

Protectionism policies: These involve placement of trade barriers such as tariffs and quotas. Business will tend to locate in a country so as to avoid such barriers- a concept known as "Tariff jumping". Excessive Legislation and Bureaucracy tends to discourage businesses since this is time wasting and expensive in the long run. If a government offers financial incentives such as tax holidays, it is likely to attract many foreign businesses

Growth in IT industry: Recent growth in ICT has led to more international locations as it is very possible to give instructions from the head office and to receive feedback instantaneously;

Presence of cheap or skilled labour force: This will attract foreign firms who either take advantage of the cheap labour or want to benefit from the highly skilled or talented workforce

Opportunities for a large market or the possibility of new emerging markets will encourage location of businesses. All these and other factors such as availability of raw materials, reducing transport costs, fast globalization rates have all worked towards speeding up the location of multinational corporations and other foreign investors in many parts of the world. Iseme (2006)

2.4 Factors influencing Investor Decisions.

It has been argued that a strong policy and regulatory regime, appropriate institutions, good infrastructure, political and economic stability are important to attract FDI. According to Ludger Odenthal cited by the UNCTAD, businesses have indicated different determinants for decisions to invest abroad. Some of these determinants include; policy frameworks for FDI such as political and social stability, rules about treating operations of affiliates of foreign companies and international FDI agreements. Economic determinants such as the size of the market, per capita, natural resources,, cheaper costs of infrastructure and intermediate products.

Business affiliations are also important. These could include privatization programmes and provisions for investments incentives. Incentives are important determinants especially in the case of a choice between two equally attractive locations. Odenthal (2001)

On the other hand, there are those factors that will repel FDI. Africa for example, is considered an unfavourable FDI location. The continent has been painted as being riddled by civil wars, famine and starvation, deadly diseases and economic disorder. These problems are further compounded by the negative publicity that the continent receives from the western media. However Angola has received bad publicity in terms of an ongoing war but this has not hindered foreign investments.

Other factors that could negatively impact the investors decisions include; small market size, lack of proper policies, lack of profit opportunities, shortage of skills, stringent labour regulations, poor infrastructure and corruption (Cuts 2002 cited in Jenkins2002)

2.5 Barriers to FDI

Some of the factors that stand in the way of FDI include administrative barriers, policy barriers, infrastructure shortcomings, constraints on human, social and institutional capital and lack of international competitiveness. Administrative barriers are manifested when there is a maze of administrative and procedural bottlenecks before granting of licences and in the day to day dealings with public officials. Even though they affect all investors, foreign investors are affected more because of their general inclination to comply with local rules and regulations, to respect due process and to meet statutory requirements.

Many foreign investors are sensitive to macro economic policies and indicators such as fiscal policies, budget deficits and monetary policies. These include taxation rates, inflation rates, domestic interest rates, ability to repatriate profits to the home country and the quality of monetary management by the central bank.

According to a report by the OECD there are some factors that can actually cause investors to withdraw FDI and which could further explain the fluctuations in the contribution of FDI to GDP in Kenya. These include; deterioration in the balance of payments as profits are repatriated back to the host countries; social disruptions as a consequence of accelerated commercialization in less developed countries; competition from the local market could also interfere with the level of

FDI. Finally, some host countries governments will curtail FDI activities if they perceive that an increasing dependence on internationally operating enterprises as representing a loss of political sovereignty.

CHAPTER THREE

RESEARCH METHODOLOGY

3.0: Research Design

The design of the study was a descriptive survey on performance of Foreign Owned Private Universities in Kenya. Descriptive survey was chosen because there are only four institutions under study. These are Aga Khan University, Catholic University of East Africa, Daystar University and United States International University. Interviews were administered to the senior university officials of three of them. The fourth one declined to take part in the study. Questions related to investment decisions made at the time of locating in Kenya, the capacity of students admitted, the number of students graduating, the sources of finances available to the university, the incentives provided by the government among others. The interview guide appears as Appendix 1

3.1: Data collection

The main data collected was primary data. Data was collected through the use of an interview guide with senior officials such as corporate affairs managers, Academic heads, Research Managers and even a lecturer in communications, from the universities named.

3.2: Data Analysis

The data was collected and edited for completeness and consistency. The data was tabulated and the recording done. Emerging patterns were noted. Data presentation techniques were used to present the outcome of the study. These included tables and charts. The findings, conclusions and recommendations were compiled as a final report of the survey study.

CHAPTER FOUR

DATA PRESENTATION AND ANALYSIS

4.0: Introduction

This chapter deals with data presentation and data analysis. The data was collected from senior university officials. These included Human resource managers, Corporate Affairs Managers, and one Deputy Vice chancellor Academics.

Two ex- FOPU'S and two FOPU'S were identified from which to carry out a survey. Interviews were administered to senior university officials. The Analysis takes the form of the universities profiles, factors influencing location decisions, the factors that support the positive performance in the universities and those that hinder performance

4.1: University Profiles

In this section the profiles of the four universities understudy will be discussed and analyzed. Issues under analysis include, physical location of the university, ownership, years of operation, number of students enrolling per year, number of students graduating per year, programs offered, any competitive advantage and any future expansion plans.

4.1.1 Aga Khan University Profile

The Aga Khan University is a constituent branch of the Aga Khan University of Eastern Africa. The other two branches are found in Kampala and in Dar es salaam. It is situated next to Aga Khan University Hospital in Parklands which is a residential area in Nairobi. It is currently operating in Kenya under a letter of interim Authority issued in 2002. It is an agency of the Aga Khan Development Network which holds in trust for the Ismail community under the leadership of his holiness the Aga Khan.

This is the 7th year of operation in Kenya. Currently two programs are offered these are Advanced Nursing studies and postgraduate Medical Education Programme. The enrolment rate

per year is 100 students with a graduation rate of almost 98 %. The competitive advantage of this university is that it is still small in size therefore offering more attention to the students. It is also the first institution in the region to offer advanced nursing studies.

Plans are underway to establish a fully fledged university to be located in the outskirts of Nairobi near Runda area. The university mission remains to develop human capacities through the discovery and dissemination of knowledge and application through knowledge.

4.1.2: Catholic University of Eastern Africa profile

This university is owned by the Association of the members of Episcopal Conference of Eastern Africa (AMECEA). This is an ecclesiastical authority with members from Eriteria, Ethiopia, Kenya, Malawi, Sudan, Uganda and Zambia. The main campus of CUEA is located in Langata area, south of Nairobi. The area is a fast growing with new residential houses coming up in the nearby Ngong and Kiserian area. It has been operating in Kenya for the last 24 years. In 1986, the graduate school started negotiations with the CHF which saw the establishment of CUEA. It started as a graduate school of Theology called Catholic Higher Institute of Eastern Africa (CHIEA). The courses on offer range from pre - university, diploma, undergraduate degree, post graduate degree to PHD level. Expansion of programs is ongoing as the university is getting ready to introduce a law degree course. In addition to the Main Campus in Langata, the university has constituent three (3) constituent colleges. These are, Heikima college, Tangaza college and Marist International centre.

4.1.3: Daystar University profile

Daystar university has two campuses, one near the Nairobi city center along Valley road and the other in Athi river South east of Nairobi town. At the time of locating in Kenya, this institution was owned by a Dr. Faye Smith and his wife who were Americans. Initially, from 1972 to 1976, it was a publishing firm. However, in 1976, there was a major meeting between the Afro Asian board and the owners of the university. A decision was made to start the university and to hand over the university to Africans.

Currently the university is under the stewardship of a group of 50 African Christian and secular leaders under the chairmanship of Mr. James Mageria.

The courses offered range from diploma courses, to graduate degree courses to postgraduate diploma and postgraduate degree courses.

4.1.4 United States International University Profile

The university is located on Thika road to the North East of Nairobi. It is about 10 kilometers away from the city centre. It has an enrolment of about 1,000 students per year. It offers courses ranging from pre - university, undergraduate degrees and post graduate degrees. It is a Self owned university in that it does not rely on foreign donors but is able to operate with payments from student fees. It has both day and evening/mature students. Some students especially those from outside the country are housed in the university hostels. It is a modern university with state of the art library, Easy access to ICT facilities, a modern gym for both students and staff among other attractive features. Over 75 % of the teaching staff has doctoral qualifications.

Class sizes are kept small with not more than forty students per class. This assures maximum attention is paid to individual students.

4.2: Factors influencing performance.

These are the factors that continue to encourage the good performance of FOPU'S. They range from the vision and missions of the universities ; competitive advantages that some of the university seem to have as compared to competitors; friendly government policies, provision of loans by the higher education loans board, to the physical location of the university. On the other hand there are those factors that have acted as an impediment to the performance of the universities. These include poor infrastructure, government bureaucracy, lack of a clear policy on university education, political instability and world affairs. These factors will be discussed individually.

4.2.1: Vision and Mission

The vision and mission of the FOPU'S has continued to be a positive influence in their operations. DU's vision is "to be a distinguished Christ centered African institution of higher learning for the transformation of the church and society". The mission is "to develop managers, professionals and scholars to be effective servant leaders through the integration of Christian faith and holistic learning for the transformation of church and society" To achieve this goal at least 15% of the courses offered in this university have linkages to the bible. These include MA degree in Christian Ministries and African Christianity; under graduate degrees in Bible, Peace and conflict transformation, community development; short courses for Christian workers who require training in specialized areas for greater effectiveness in their work; research and consultancy services in evangelism, church planting and discipleship. The mission to serve the community ensures that DU works in collaboration with local churches. This provides a support network from the local community which will also act as a source market for its students.

AKU has a vision "to primarily serve the developing world and muslim societies in innovative and enduring ways". It therefore operates as a non – profit making institution that offers continuing education opportunities for practicing nurses. 100% Of the courses offered are meant to contribute to enhancement of the community health. Such courses include; the Advanced Nursing Studies (ANS) and Post Graduate Medical Education (PGME). AKU views itself as a development partner with an aim of assisting the government of Kenya to increase capacity in health workers human force. AKU is not profit driven and would even carry out operations in a hostile environment as evidenced by location of Aga Khan University in Afghanistan.

4.2.2: Student Loans by Higher Education Loans Board (HELB)

All officials interviewed cited this as one of the factors that has greatly increased the student numbers in the universities or at least contributed to less students dropping out or delaying graduation as a result of lack of fee payments. Though it is not entirely correct to attribute increased enrolment rates directly to HELB loans, since there could be other contributing factors; its effects however cannot be completely ruled out. The table 4 below could bear witness to this.

Table 4: Enrolment numbers before and after HELB loans

University	Average number of students enrolment per year before HELB loan	Average number of enrolled student per year after HELB loans	% Increase in enrolment rates
CUEA	800	1200	50%
DU	500	750	50%
AKA	80	100	20%

Source: Researcher

From the table above it can be deduced that the provision of HELB loans has contributed to between 25% to 50 % increase in enrolment rates. These are significant increases in number and have positively influenced the financial performance of the Universities. HELB loans have enabled students from less privileged backgrounds to enroll in private universities. They would otherwise have had no access to university education especially if they did not meet the intake criteria required by public universities.

4.2.3: Government Support and incentives

The Government of Kenya has been supportive of FOPU's through various ways. At the onset it has granted letters of interim authority to allow operations in the country. For example AKU is

operating under a letter of interim authority. The other universities have been granted full charters so that they can operate as fully independent universities. The process of granting of charters has been especially made easier after the formation of the Commission of Higher Education (CHE) in 1985. The various years of granting of charters are shown in table 5 below.

Table 5: Year of commencement and granting of Charter

UNIVERSITY	YEAR OF COMMENCEMENT OF OPERATIONS	YEAR OF GRANTING CHARTER
CUEA	1984	1992
DU	1972	1994
AKU	2001	Still under letter of interim authority.
USIU	1969	1999

Source: Researcher

Apart from granting of charter, the CHE is also instrumental in harmonization of university education to make sure it meets local needs, it offers advice to the various university councils on the ongoing tertiary education trends in the country, it oversees the introduction and implementation of new courses on offer as well as renewal of operation licenses.

The government recently in 2007 waived VAT on construction activities taking place in the universities. This has seen increased construction and expansion of the physical facilities. For example there is a new ultra modern library opened in September 2007 at the USIU. Daystar University is has also recently constructed a new hostel for its female students at their Athi River Campus. Construction work is also ongoing CUEA and plans are underfoot to construct a fully fledged AKU at Runda area. Construction represents transfer of capital through FDI.

Continued construction suggests that the university authorities are looking into continued operations in the country for the long term. It also suggests some form of financial stability.

Another form of government support is in the granting of work permits to expatriate teaching and administrative personnel. At least 5 % of all the staff in AKU is expatriate in nature. This is important since it contributes to transfer of human capital and in the long run the expertise will be transferred to locals.

4.2.4: Financial Stability

One of the common findings from all four universities was that they are able to sustain themselves financially from the tuition fee payments from their student body. USIU is an example of one university that relies 100% on Tuition payments. Any donations realized from within the country and outside has been largely as a pool to grant sponsorship to deserving but less privileged students. The universities have aggressively gone for increased student enrolment through offering flexible teaching programs. This is evidenced by evening classes programs, long distance programs, Holiday/ Summer programs as well as short courses targeted at particular professionals such as Christian leaders (DU) , Business Executives (USIU and CUFA) and already registered nurses (AKU).

The universities also offer a wide range of courses ranging from diploma, pre-university courses, undergraduate degrees, postgraduate degrees, and even doctorate degrees.

Table 6 below shows the Average fee structure for the year 2001-2002.

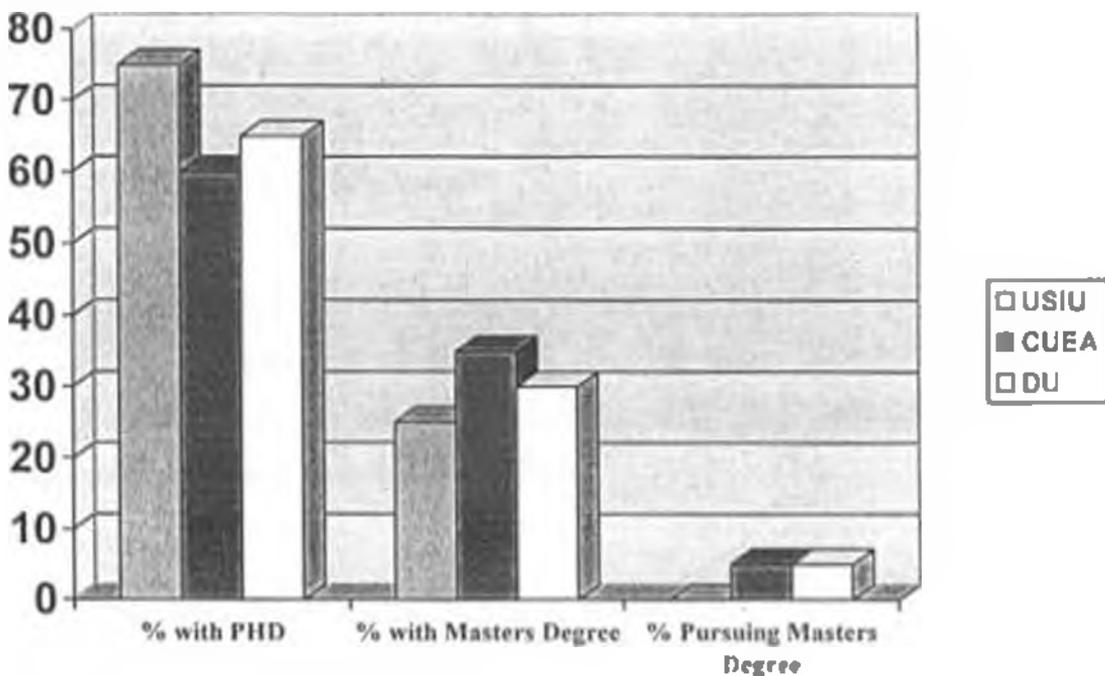
University	Tuition fee Kshs. per term	Tuition fee Kshs. Per Quarter
USIU	175,540	57,180
CUFA	117,760	58,880
DU	131,000	65,500

Source: Fee Structures various Universities

4.2.5: Qualified Teaching Personnel

About 75% of the teaching staff at USIU are holders of PhD's and other doctoral qualifications. The remaining 25% are holders of Masters Qualification. At CUEA, Doctorate holders in the teaching fraternity is about 60 % Masters Holders constitute about 35% while those seeking a master's qualification are about 5%. For DU PHD holders are 65% Masters Holders are 30% while the remaining 5 % are pursuing a master's qualification. The ability of the universities to pay relatively better wages than the public universities means that they are able to attract the best qualified university lectures. Fig 1 below shows this in Bar Chart form. The universities are also allowed to have at least 10 % expatriate workers especially those working for short periods of time. This contributes further to ensuring that the human resource is up to date and relevant to the demands of the current needs of the students. Additional support staff for student counseling for both psychological and career needs further makes the universities to be attractive to the students. At DU for the mentorship relationship between a student and their lecturer extends beyond graduation.

Figure 1: Qualification Levels of Teaching Fraternity



.Source: Various university Catalogues

4.2.6: Competitive Advantages

Each of the university has a competitive advantage over the others. For DU, it is widely believed to have the best Communications program. Graduates of communication from DU are among the best in the communication industry. Further, DU offers moral teachings based on biblical principals. This gives it a competitive edge especially amongst the Christian population in Kenya (75% of total population)

CUEA has the competitive advantage in that the students complete their courses during the allocated time. There are no long closures as happens in public universities due to the constant strikes by the students and on two occasions by strikes by lecturers agitating for better working conditions. AKU is located near the Aga Khan University Hospital also owned by the Aga Khan foundation. It is therefore quite easy to work in partnership with the hospital for purposes of practical work for the trainee nurses and doctors.

However there are factors that have continued to hamper the smooth performance of FOPU's. They have had a negative impact on the performance of the university by either causing inconveniences to their operations or by reducing the student's enrolment numbers. These factors are discussed as follows.

4.2.7 Lack of proper Infrastructure

Infrastructure both physical and technological is lacking in Kenya. The Kenyan road networks have not been developed to meet the challenges of modern times. This has led to massive traffic jams being experienced on the roads. Presence of potholes and wanton disregard for traffic rules also leads to expensive delays and accidents.

Lack of proper internet connectivity and the slow rates of access to online facilities has compromised the quality of research and at times acted as a deterrent to enrolment of students. Some students and university staff prefer to pursue their tertiary education abroad therefore leading to loss of income for FOPU's.

4.2.8 Government Bureaucracy

Government bureaucracy is evidenced by the long time it takes a university to get accreditation as reflected on Table 5. AKU is still waiting granting of a charter in 2008 after having started operations in 2001. At times it takes a whole year before registration for new programs can be authorized. More red tape is experienced in granting of work permits especially for those expatriates who want a long stay of duty. This is due to the government policy of granting available work opportunities first to its citizens.

Another form of bureaucracy is experienced by AKU which has to pay practice fee to the government for its students to do attachment in government hospitals. Given that AKU is actually in partnership with the government with an aim of assisting in the provision of nursing services, this is an unnecessary cost that only brings about delays.

4.2.9 Political instability and world Affairs.

In August 1998, Kenya and Tanzania were hit by a terrorist bomb. A travel advisory was issued by the United States Government advising its citizens to minimize travel to Kenya. This travel advisory was unfortunately renewed in 2003 after another bomb attack in Mombasa. To compound the problem further, the Twin Towers in New York suffered the same fate in 2001. Due to threats of terror attacks against American citizens and fear of flying, the once vibrant DU student exchange programs between North American and Kenyan students has virtually been stopped. Most parents in the USA and Canada do not feel comfortable sending their children to Kenyan universities. The US embassy on the other hand has introduced very stringent measures when issuing Visas. This has acted as a deterrent to Kenyan students would have wanted to participate in the exchange programs.

CHAPTER FIVE

CONCLUSIONS AND RECOMMENDATIONS

5.0 Conclusion

The study set out to find the factors affecting performance of FOPU's in Kenya. It first established that two universities popularly believed to be Foreign owned have converted their status to Self owned. The study also established that the factors affecting FOPU's positively were, a stable political climate, clear vision and missions of the universities that give them a sense of purpose, financial stability, government support and incentives, Provision of student loans by the Higher Education Loans Board, Qualified teaching personnel, and possessing various competitive advantages.

The factors hindering or curtailing performance of FOPU's include, lack of proper infrastructure and communication networks, Government bureaucracy, political instability and world affairs.

5.1 Limitations of the study

This study was limited by the fact that the researcher was not able to get a face to face interview with the owners of the university. This meant relying on other officials who may not have had the full information required. In some instances the time frame allocated for the face to face interview was limited therefore it was not possible to carry out an in depth interview. Questions touching on financial performance were deemed too sensitive and were mostly avoided.

5.2. Recommendations for further research

At the start of this study the researcher had identified four foreign owned private universities in Kenya. During the course of the study, it was discovered that indeed two of the four are no longer foreign owned despite having started off as foreign investments. The circumstances leading to this change in ownership would make for interesting research. There is also need for more research into the performance of other private universities whether religious owned or locally owned.

5.3 Recommendations for policy and practice

The government of Kenya has reiterated time and again that it is important for foreign investors to make investments in the country. This will act as a way of increasing capital stock, increasing employment opportunities; accelerate growth of infrastructure and other social amenities. For tertiary education, more FDI would be forthcoming if the government put in place more enabling environment. This could include, waiver of VAT and other taxes for university equipment such as textbooks, computers and stationary; the government could also direct funding for university projects such as research; less bureaucracy when granting of licensees, more technical assistance from the Commission for higher education; granting privileges to private university lecturers similar to the once granted to lecturers in public universities would also attract the much needed human resource.

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APPENDIX 1: RESEARCH INSTRUMENT

INTERVIEW GUIDE

1. Who are the owners of this University?
2. How long have you been in operation in Kenya?
3. What are the main factors that influenced the decision to locate in Kenya?
4. What factors have continued to support your decision to operate in Kenya?
5. What investment incentives have been offered by the Government of Kenya?
6. Does the Government of Kenya offer any support financial or otherwise to the university?
7. What are the sources of your financing?
8. From your experience is Provision of University Education a lucrative Investment?
9. What would you say are your areas of specialty as an institution of higher learning?
10. What competitive advantage does your institution have over competitors?
11. Which group of people do you target for your student pool?
12. How many students enroll into your University per Academic year?
13. How many students graduate from your University per Academic year?
14. What expansion plans do you have for the future?
15. What support would you wish to get from the Government of Kenya? Why?

APPENDIX 2: INTRODUCTION LETTER

Anne W. Kinuthia
University of Nairobi,
School of Business,
Tel 020 2059162
July - August 2008

Dear Sir/Madam,

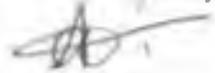
RE: MBA RESEARCH PROJECT

I am a post graduate student at the University of Nairobi. I am carrying out this research as part of my requirements for the fulfillment of the degree of masters of Business Administration. The aim of the project is to find out the performance of Foreign Owned Private Universities operating in Kenya.

The information you will provide will be treated with utmost confidentiality and will be used for purely academic purposes. A copy of the completed research project will be provided to you upon request

I look forward to your assistance and wish to thank you for availing your time.

Yours Faithfully,



Anne W. Kinuthia

Email: wangare2000k@yahoo.com

Mobile No: 0722341200



Dr. John Yabs

Supervisor