DRIVING FORCES FOR FOREIGN DIRECT INVESTMENT BY
BEIERSDORF EAST AFRICA LIMITED IN KENYA

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OCTOBER, 2013
DECLARATION

Candidate

This research project is my original work and has not been presented for examination in any university.

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D61/62834/2010

This research project has been submitted for examination with my approval as the university supervisor.

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ACKNOWLEDGEMENT

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Lastly, in a very special way, I would like to thank my nuclear family; my wife Patricia, and my two sons Moses and David for their moral and emotional support throughout this period. May God bless you abundantly!
DEDICATION

This project is dedicated to my family members for both moral and financial support and encouragement they offered to me during my study period and to friends and relative for any input they made in my education.
ABSTRACT

Foreign direct investment (FDI) occurs when a firm invests directly in facilities to produce or market a product in a foreign country. FDI takes on two forms, the first is green investment, which involves establishing a new operation in a foreign country. The second form involves Mergers and/or acquisitions. (M & As) account for the bulk of FDI but their initial impact is less powerful than a Greenfield investment since they normally involve merely a change of ownership of existing assets. New technology and management skills may be introduced and linkages to the global market may be enhanced. Beiersdorf East Africa is an affiliate of Beiersdorf AG, which has its headquarters in Hamburg, Germany and the world’s leader in skin care products. It has a manufacturing plant here in Kenya which serves both Eastern and Central Africa markets. The organization has employed foreign direct investment in Kenya as its entry mode to the above mentioned markets. The study used interview guide to gather the information and data required. Objectives of the study was to determine the driving forces for foreign direct investment in Kenya and establishing the impacts of direct investment in Kenya by Beiersdorf. The respondents comprised managers from Operations, Quality, Environment and Safety, Customer service, Maintenance, Warehousing and Distribution, Sales and Marketing, Finance and General Administration departments. The study established that the major driving forces for foreign direct investment in Kenya by Beiersdorf East Africa were: availability of good market which is growing, availability of cheap labour which is highly skilled, good infrastructure and openness of the economy due to favourable government policies for attracting foreign investment. The study concluded that Beiersdorf used the above driving forces as the main criteria to invest in Kenya and also established that its investment in Kenya has impacted positively to the country’s economy by creating job opportunities, enhancing working force skills, technology transfer and providing market to local enterprises.
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<tr>
<td>UNCTAD</td>
<td>United Nations Conference on Trade and Development</td>
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<td>BDF</td>
<td>Beiersdorf</td>
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<td>F.D. I</td>
<td>Foreign Direct Investment</td>
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<td>G.D. F</td>
<td>Growth Development Finance</td>
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<td>MDG</td>
<td>Millennium Development Goals</td>
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<td>HDI</td>
<td>Human Development Index</td>
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<td>IMF</td>
<td>International Monetary Fund</td>
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<td>UN</td>
<td>United Nations</td>
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<td>WOEs</td>
<td>Wholly Owned Enterprises</td>
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<td>MNES</td>
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CHAPTER ONE
INTRODUCTION

1.1. Background of the study

In this era of increasingly globalized world economy, FDI is a particularly significant driving force behind the interdependence of national economies (Blinder, A.S, 2006). Even though most of the FDI flows have always concentrated in the developed countries, its importance is undeniable for developing countries as well direct investments, developing countries are participating more than ever before in through private global production network. It is widely acknowledged that FDI has potential benefits that can accrue to developing countries (Buch et al, 2003).

This view is based on the theories that suggest that FDI is important for economic growth as it provides the much needed capital for investment, increases competition in host countries economies, and aids local firms to become more productive by adopting more efficient technology or by investing in human or physical capital. Like trade flows, this view does a reasonably good job of fitting the observed data, but leaves one wondering if such a parsimonious specification captures all relevant factors.

There are various theories on Foreign Direct Investment (FDI) explaining why a firm would favour FDI, which is expensive and risk because of doing business in different environment from home countries. These theories can be better explained by examining the limitations of exporting and licensing as means for capitalizing on foreign markets.

The first theory explains limitations of exporting (Hill, 2009). Limitations to exporting arise due to transport costs and trade barriers. For products with low value-low weight ratio, attractiveness for exporting decreases. Trade barriers such as import tariffs or quotas increase cost of exporting. By limiting export through tariffs, government can increase cost of exporting, thus increasing attractiveness for the FDI and licensing.

The second theory in other words known as internationalization theory, explains the draw backs of licensing. It further suggests that licensing has three major draw backs as a strategy for entering foreign markets. First licensing may result in a firm giving away valuable technological-know how to a potential competitor. A second problem is that licensing does not give firm the tight control over marketing, manufacturing, and strategy
in a foreign country that may be required to maximize its profitability. A third problem with licensing rises when a firm’s competitive advantage is based on as much on its products as on management, marketing and manufacturing capabilities that produce those products. The problem here is that such capabilities are often not amenable to licensing (Washington, 2009).

The third theory is eclectic paradigm (Charles, 2008). This has been championed by British Economist, John Dunning. He argues that in addition to various factors discussed above, location-specific advantage is also considerable importance in explaining both the rationale for and direction of FDI. By location specific advantage, Dunning means the advantages that arise from utilizing resource endowments or assets that are tied to a particular foreign location and that a firm finds valuable to combine with its own unique assets such as firms technological, marketing or management capabilities.

This research will try to identify the main driving forces for FDI in Kenya by BDF. A case study will be done on this cosmetic manufacturing firm, which has adopted Greenfield investment model as part of its entry mode in the market, (Pashamiova, 1998).

1.1.1 International Business

International business refers to exchange of products and services across national borders (S.Tamer, 2008). The trade involve both products (merchandise) and services (intangibles). Exchange can be through exporting, an entry strategy involving the sale of products or services to customers located abroad, from a base in the home country or a third country. Exchange can also take the form of importing or global sourcing. According to (Gary, 2008), international investment refers to transfer of assets to another country, or acquisitions of assets in that country. These assets include capital, technology, and managerial talent.

With trade, products and services cross national border. With investment the firm crosses borders to secure ownership of asset located abroad. The two types of investments are portfolio investment and foreign direct investment (FDI). International portfolio investment refers to the passive ownership of foreign services such as stocks and bonds for the purpose of generating financial returns. FDI refers to an internalization strategy in which the firm establishes a physical presence abroad through acquisition of productive
assets such as capital, technology, labour, land, plant and equipment, (Rieseberger, 2008). It is a foreign market entry strategy that gives investors partial or full ownership of a productive dedicated to manufacturing, marketing or research and development activities. Firms normally have a long term plan to invest such resources in foreign countries.

1.1.2 Foreign Direct Investment in Kenya

According to UNCTAD (2002) FDI flows to Kenya have not only been highly volatile, they generally declined in the 1980s and 1990s despite the economic reforms that took place and the progress made in improving the business environment. The investment wave of the 1980s dwindled in the 1990s as the institutions that had protected both the economy and the body politic from arbitrary interventions were eroded (Phillips et al., 2001). Net FDI inflows declined in absolute terms from an average US$30.67 million in the 1980s to US$17.7 million in the 1990s. The gross (net) FDI/GDP ratio declined from an average of 0.57% (0.42%) in the 1980s to 0.20% (0.198%) in 1990s.

The data also show that the share of net FDI in gross fixed capital formation (GFCF) declined from 2.02% in the 1980s to 1.13% in the 1990s. FDI is therefore minuscule when compared with domestic investment (which is generally true across regions, both underdeveloped and developed). The data also show that there was a big jump of FDI flows into the country in 2000, reflecting new investments by mobile phone companies (involving mergers and acquisitions of US$3 million) and accelerated offshore borrowing by private companies to finance electricity generation activities, which became necessary because of the drought that prevailed that year. The stock of net FDI inflows increased from US$368 million (or 5.1% of GDP) in 1980 to US$764 million (or 7.4% of GDP) in 2000.

According to UNCTAD (2002), Kenya had about 114 MNC affiliates located in the economy in 2001. According to the list, there are 63 largest MNCs in the country, 27 in the industrial sector, 26 in the tertiary sector, and 10 in finance and insurance. The information shows many of the big multinational firms are in the industrial and tertiary sectors (the latter composed mainly of trade, transport and telecommunications).
Most of these MNCs are from developed countries with a majority from Western Europe and the US. And many of these big firms are somehow the horizontal type, which means that market size and growth would be a major determinant of their activities in the country. They could also be in Kenya to capture the East African market. There are some that are attracted by the natural resources, especially those in agro-industry and the cement industry. They own plantations and process the products for both domestic and foreign markets. A number of them are listed on the Nairobi Stock Exchange in an attempt to diffuse ownership but they control the majority of shares.

1.1.3 Beiersdorf East Africa Limited

Beiersdorf East Africa is an affiliate of Beiersdorf AG, which has its headquarters in Hamburg, Germany and the world’s leader in skin care. The parent company was established towards the end of 19th century and has over 150 affiliates worldwide. Some of its leading brands include Nivea, Eucerin and La Prairie which target mass, pharmacy and selective markets. The company is managed by a supervisory board under a chairman who sits in Hamburg. The company realized around 6B Euros (466 Billion Kenya Shillings) in the year 2012 and profits of 477 million Euros for the same year. Globally the company has a labour force of 16,605 employees.

Beiersdorf East Africa was established in the year 1972 in Nairobi, Kenya. The company is located in Sasio road off Lunga Lunga Road and has a manufacturing unit for some of its brands. The leading brand in the market is Nivea. In the year 2001 saw the company expand its production facility by putting up a new line and a warehouse. The operation supplies the local market and East Africa markets which include Uganda, Tanzania, Rwanda, Burundi and Ethiopia. Products are distributed through effective distribution networks of wholesalers, distributors and the leading retail shops in the region. The company embraced foreign direct investment entry mode in the country since its entry in the market and it would be interesting to learn the driving forces for this strategy since the company has been growing from one year to another in its annual revenue with current annual revenue of around 3Billion Kenyan shillings.

( http//:www.beiersdorf.com)
1.2 Research Problem

Foreign direct investment (FDI) in the service industries has increased substantially in recent decades. For developing countries, service industry FDI can intensify domestic competition, or provide access to services domestic producers do not supply. An important question is therefore how developing countries can attract more foreign investment in these sectors. (Singh, 1996)

Although it has been argued that political instability in the host country could discourage the inflow of FDI, and most of the empirical studies support this argument, some empirical evidence suggested that political factors played an insignificant role in firms’ decision to invest abroad (Swain & Wang, 1997), (Zhang, 2002) and (Andreosso–O’Callaghan & Wei, 2003).

The volume of FDI that flows to Africa is not only very low as a share of total global FDI flows or even as a share of FDI flows to developing countries, but also the share is on a steady downward trend for three decades. Africa accounts for just 2 to 3 per cent of global flows, down from a peak of 6 per cent in the mid-1970s, and less than 9 per cent of developing-country flows compared to an earlier peak of 28 per cent in 1976 (UNCTAD (2005)).

Beiersdorf East Africa started its operations in Nairobi by first leasing a factory formerly owned by a Textile Company. Some years later, they bought the plant together with the land. In the year 2003 they expanded the manufacturing facility together with a new large warehouse. From these activities it can be deduced that the company has been investing heavily in its operations in the market in terms of billions.

Many studies in literature have dealt with the issue of FDI and their potential benefits for developing countries in terms of job creation opportunities, technology transfers, and growth and development. There have also been several studies on the determinants of FDI in developed countries and developing countries although all developed countries or all developing countries cannot be grouped together given their different economic conditions (Kinoshita Y., 1998) There are quite a few studies that concentrate on a region and yet very few on the African region and furthermore no study has been done on BDF
on its FDI activities in Kenya. To close this gap in existing literature, the aim of this study is to analyze the key driving forces of FDI for BDF in Kenya. The period under consideration here is 1990-2005.

The increasingly significant role of FDI in the growth dynamics of countries has created much research interest among scholars and much research has been focused on the determinants of FDI and has generally identified the following factors namely comparative labour costs, country size, economic openness, nature of exchange rate regime, return on investment and political factors.

Many of the studies include primarily developed countries in their sample and most of those which include substantial numbers of less developed countries (e.g Schneider and Frey, 1985 and Gastanaga and Nugent, 1998) are estimated with pure cross sections. With regards to research on the determinants of FDI to Africa, there is an even more dearth literature and among the very few features (Schoeman et al, 2000), (Morisset, 2000) and (Asiedu, 2002).

The research tried to answer the following question: what are the driving forces for FDI in Kenya by BDF and what role does FDI play in Kenyan economy?

1.3 Research Objectives

The research was guided by the following objectives (i) determining the driving forces for FDI in Kenya by Beiersdorf and (ii) establishing the role FDI of BDF plays in Kenyan economy.

1.4 Value of the study

This study was valuable to the management of BDF and other organizations in understanding the key driving forces for FDI in Kenya. This made them know the role FDI plays in Kenyan economy and its impacts in the economy.

The government and policy makers were believed to gain valuable information in driving FDI in Kenya. The study was also useful to the government in policy making regarding FDI attraction and how it plays a significant role in determining this driving forces.
The policies designed would serve as guidelines in assisting management in knowing what procedures and policies to follow when deciding to invest in Kenya. (Montoya (2007)).
CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This chapter comprises the review of literature by different authors on the topic of factors necessitating foreign direct investment as an entry mode; and also covers theories of international business.

2.1 Theories of International Business

Early neoclassical theories explain international capital flows with differentiated rates of return across countries that lead to capital arbitrage, with capital seeking the highest return. Cockcroft and Riddell (1991) argue that the future investment flows are directly related to the package of incentives, which influence the expected rate of return; the security of the investment; the scope and speed with which companies are able to disinvest. The tax regime; investment code or guidelines; and overall macroeconomic policies are all elements affecting FDI.

Cockcroft and Riddell (1991) suggest that addressing these problems would certainly help improve the foreign investment climate. According to Meier (1994), the major supply-side determinant of FDI in developing countries is the expectation of higher returns or higher profits by firms. Developed countries will tend to invest in poorer countries that have higher rate of return (Ekpo, 1996).

Internationalization theories assume that foreign companies have oligopolistic power in the host countries (Cockcroft and Riddell, 1991; Meier, 1994). It holds micro and macro-economic factors responsible for the real life deviations from the perfect market model. According to this approach, firms choose an investment location because of its comparative advantage.

Meier (1994) contributes to this theory by arguing that FDI may also be taken to gain control over inputs thus creating a barrier of entry to new competitors. According to
internalization theory, firms keep operations internal through a hundred percent subsidiary because they want to control the risk and retain control and market share. Multinationals engage in FDI to secure internalization advantages. Compared with external markets, the firm’s linkages, integration, transfer pricing and economies of centralization allow costs to be reduced through FDI (Meier, 1994). In Keynesian theory of economics, development aid to least developed countries has its origin in the colonial period, although the issue of development was not important either to colonies or to the relationship between richer and poorer countries in 1950s (Riddell, 1992).

This came as a result of Keynesian economics exemplified by, for instance, Rostow, Chenery, Strout and Rosentstein-Rodan. Their concern was how to transform what is perceived as backward areas and unproductive societies into dynamic and growing economies (Riddell, 1992).

Aid has been provided to accelerate developing economies, hence the role of outside capital is not directly to raise the standards of living but to make a transition in the economy and bring about sustainable growth (Bhagwadti and Eckaus, 1970).

The economic motive was also in the self interest of the developed nations to invest in developing nations to raise their own welfare. If the rate of interest is higher than the productivity of capital in developed countries and lower in developing countries, both parties will gain. If there are under-utilized resources in developed countries, which could not be activated due to balance of payments constraints, international aid will be mutually profitable by channeling such resources to developing countries (Brandt Report, 1980).

Marginal efficiency of Investment (MEI) theories is a measure of business demand for investment decision. Investment by a firm occurs when MEI (or the Internal Rate of return) on additional investment exceeds the rate of interest or cost of funds that are incurred in making investment decisions (Keynes, 1936). MEI could thus be defined as the rate of interest, which discounts the present value of investment to zero. The higher the market rate of interest, the lower the investment and vice versa.

Investment theory gave rise to the accelerator theory, which makes investment a linear proportion of changes in input. The larger the gap between existing capital stock and the
desired capital stock, the greater the firm’s rate of investment. The decision to make incremental or decremental changes to the capital stock depends on the value the firm will attain (Tobin, 1969).

Dunning’s (1981, 1988) ‘electric theory’ provides a flexible and popular framework where it is argued that Foreign Direct Investment (FDI) is determined by three sets of advantages which direct investment should have over the other institutional mechanisms available for a firm in satisfying the needs of its customers at home and abroad. The first of the advantages is the ownership specific one which includes the advantage that the firm has over its rivals in terms of its brand name, patent or knowledge of technology and marketing. This allows firms to compete with the other firms in the markets it serves regardless of the disadvantages of being foreign. The second is the internationalization advantage that is why a ‘bundled’ FDI approach is preferred to ‘unbundled’ product licensing, capital lending or technical assistance (Wheeler and Mody, 1992).

2.2 Determinants of Foreign Direct Investment

There are major determinants of FDI in general, however there is no unanimously accepted single factor determining the flow of investment. The literature is replete with information on the full range of factors that are likely to induce the flow of foreign direct investment anywhere. It is often claimed that those factors that are favourable to domestic investments are also likely to propel foreign direct investment. These are the various factors that propel the flow of FDI into a given geographical location, say a country or a region. In making decisions to invest abroad, firms are influenced by a wide constellation of economic, political, geographic, social and cultural issues.

It is important to note that while the list of factors is fairly long, not all determinants are equally important to every investor in every location at all times. It is also true that some determinants may be more important to a given investor at a given time than to another investor.

While it is difficult to determine the exact quantity and quality of FDI determinants that should be present in a location for it to attract a given level of inflows, it is nevertheless clear that a critical minimum of these determinants must be present before FDI inflows
begin to occur (Ngowi, 2001). One would rationally expect that investors would choose a location in accordance with the profitability of that location. The profitability of investment is expected to be affected by specific factors, however, including country characteristics as well as the types of investment motives.

2.2.1 Market Size and Growth
Market size and growth have proved to be the most prominent determinants of FDI, particularly for those FDI flows that are market seeking. In countries with large markets, the stock of FDI is expected to be large since market size is a measure of market demand in the country. This is particularly true when the host country allows the exploitation of economies of scale for import-substituting investment.

2.2.2 Cost and Skills of Labour
The cost of labour is important in location considerations, especially when investment is export oriented (see Wheeler and Mody, 1992; Mody and Srinivasan, 1998). Lower labour cost reduces the cost of production, all other factors remaining unchanged. Sometimes, the availability of cheap labour justifies the relocation of a part of the production process in foreign countries. Recent studies, however, have shown that with FDI moving towards technologically intensive activities, low cost unskilled labour is not in vogue. Rather, there is demand for qualified human capital (Pigato, 2001). Thus, the investing firm is also concerned about the quality of the labour force. It is generally believed that highly educated personnel are able to learn and adopt new technology faster, and the cost of retraining is also less.

2.2.3 Availability of Good Infrastructure
It is often stated that good infrastructure increases the productivity of investment and therefore stimulates FDI flows (Asiedu, 2002). A study by Wheeler and Mody (1992) found infrastructure to be very important and dominant for developing countries. In talking about infrastructure, it should be noted that this is not limited to roads alone, but includes telecommunications.
Availability and efficiency of telephones, for example, is necessary to facilitate communication between the host and home countries. In addition to physical infrastructure, financial infrastructure is important for FDI inflow. A well-developed financial market is known from available evidence to enable a country to tap the full benefits of FDI. Alfaro et al. (2001), using cross-section data, found that poorly developed financial infrastructure can adversely affect an economy’s ability to take advantage of the potential benefits of FDI.

In a study by Bhinda, Griffith-Jones and Martin (1999), it was found that problems related to funds mobilization were on the priority list of the factors discouraging investors in Uganda, Tanzania and Zambia.

2.2.4 Country risk
Several studies have found FDI in developing countries to be affected negatively by economic and political uncertainty. There is abundant evidence to show the negative relationship between FDI and political and economic stability. In a study on foreign owned firms in Africa, Sachs and Sievers (1998) conclude that the greatest concern is political and macroeconomic stability, while Lehman (1999) and Jaspersen et al. (2000) find that countries that are less risky attract more FDI. Perception of risk in Africa is still very high and continues to hinder foreign direct investment.

2.2.5 Openness of an economy
The more open an economy is, the more likely it is that it would follow appropriate trade and exchange rate regimes and the more it would attract FDI.
CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction
The methodology in any study is very important as it links theory with practice. It guides the researcher in collecting evidence in the real world. Mbwambo (2005) argues that a proper research design shows that the researcher not only understands the true problem but also knows the right course of action towards a valid solution. This part seeks to elaborate the course of action that will be used in acquiring a valid solution to the problem.

3.2 Research design
The research was in form of a case study. The case study was appropriate since the aim was to identifying the driving forces for FDI by BDF. Case studies are very popular form of qualitative analysis and involves careful and complete observation of a social unit be that unit a person, a family, an institution, cultural group or entire community (Kothari, 1990). According to Yin (2003), a case study design should be considered when the focus of the study is to answer “how and why” questions; you cannot manipulate the behaviour of those involved in the study; you want to cover contextual conditions because you believe they are relevant to the phenomenon under study; or the boundaries are not clear between the phenomenon and context.

The limitation of this case study included the danger of generalization mainly because of lack of rules to follow in data collection, it was time consuming and expensive, the researcher was be subjective, and was used in a limited sphere. Despite the limitation, the case study was conducted at BDF Head office on 1st to 3rd October 2013.

3.3 Data collection
The study used primary and secondary data. Primary data was collected through face to face interview with the researcher while secondary data was collected through review of various relevant publications and reports of Beiersdorf East Africa, financial statements
and other relevant materials. An interview guide was used to collect data on the driving forces for FDI adopted by BDF. The interview guide was pilot tested for reliability one week before the data collection.

The departmental heads of sales and marketing, finance and supply chain were interviewed. Some few other senior managers who have stayed in the organization for long were also interviewed.

### 3.4 Data Analysis

Data obtained from the interview guide was to be analyzed using content analysis. Nachmias and Nachmias (1996) define content analysis as any technique used to make inferences through systematic and objective identification of special characteristic of messages. Kothari (2004) explains content analysis as the analysis of the contents of documentary and verbal material, and describes it as a qualitative analysis concerning the general import of message of the existing document and measure pervasiveness. The researcher analyzed the information provided by the interview guide against known driving forces for FDI to describe and determine how FDI has been adopted by BDF.
CHAPTER FOUR

DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

This chapter represents analysis and findings of the study as set out in the research objective and methodology. The results are presented for the driving forces for foreign direct investment in Kenya by Beiersdorf. The chapter specifically covers general information of the study and forces driving foreign direct investment.

Out of 8 targeted managers, six were interviewed giving a response rate of 75%. This response was excellent and representative and conforms to Mugenda and Mugenda (2003) stipulation that a response rate of 50% is adequate for analysis and reporting, a rate of 60% is good and a response rate of 70% and over is excellent.

4.2 General Information

The interviewees were asked to indicate the department in which they worked. From their answers it became clear that the interviewees worked in various departments including Operations, Quality and Environment, Warehousing and Distribution, Maintenance, Sales and Marketing, Finance, Customer service and General Administration.

The interviewees were further asked to indicate the period in which they have worked in the organization. From the research findings, the interviewees had worked in their current departments for a period of four months (4) to twelve years (12). They attributed this period in their current role to the restructuring and retrenchment in the organization.

The study further sought to establish the sources for funds for direct investment in Kenya by the organization. From the responses, the funds for direct investment come from various two sources. One source is from the headquarter in Hamburg, Germany through which is proposed and approved by the Executive board which is headed by an executive chairman. Depending on the growth strategies derived from their long term strategic plans, some funds are allocated for the Kenyan entity for investment. The second source is by re-investing from the earnings earned from the local operation. This is done through
capital expenditure approval process, but the approval has to be done by the headquarter in Germany.

The study sought to know the amount of funds normally invested in a single project or a financial year but the interviewees were not ready to divulge as this is confidential to the organization as well as it is not registered in the Nairobi Stock Exchange.

The study sought also to establish whether the organization had plans for investing directly to other countries of Eastern and Central Africa. Majority of the interviewees responded that there are no such plans, as the markets are served from Kenyan operations. However the markets are served through distribution agents in those countries as well as the organizations country managers who normally liaise with Nairobi office.

4.3 Motivation for Investing in Kenya

The study sought to establish from the interviewees the motivation to invest in Kenya and not other East Africa countries. From the interviewee’s response, it was noted that Kenya’s location is strategic due to its access to the port which facilitates movements of goods both inbound and outbound from other parts of world and its road network link to the neighbouring countries. This makes Kenya an economic hub for the region and makes market access to other East and Central African markets easily achievable. From the study it was established that the company exports to Tanzania, Uganda, Southern Sudan, Rwanda, Burundi, Democratic Republic of Congo, Ethiopia, Djibouti, Eritrea, Seychelles, Mauritius and Madagascar.

It was also established from the interviewees that return on investment largely affected the flow of foreign direct investment in a country. In general FDI will go to countries that pay higher return on capital and the interviewees felt that Kenya offers high return on investment to their organization and as such this motivated the company to invest in Kenya.

The researcher also established that the macroeconomic and other policies by the government motivated the organization to invest in the country. This includes laws on taxation among them corporate taxation and value added tax, policy on exchange rate and other economic policies that are sustainable in the country. Lending rates by banks has
been favourable with most banks charging interest rate less than 25% which makes borrowing facilities available to investors.

4.4 Evaluation of Driving Forces of Foreign Direct Investment

The study sought to establish whether Beiersdorf had evaluated its drivers for FDI before resulting to invest in Kenya. From the interviewees response, the study established that the company critically evaluated the driving forces before making a decision to continue investing in the country. To ensure this was a success, the interviewees indicated that the company set up a management team which developed the major determinants for investing in the country.

4.4.1 Availability of a Market With a High Growth Rate

The study established that this was one of the major driving force for the organization to invest in Kenya. Kenya has a growing middle class citizens which offers a good market for the products of the company as the organization pull to invest in the country was a market seeking drive. It was established that Kenya has a large market and as such created a higher demand than other countries within East and Central Africa due to the size of its economy.

4.4.2 Costs and Availability of Skilled Labour

The study established that the country has highly skilled labour and which is not too expensive this was one of the driving forces for BDF to invest in Kenya. Lower labour costs reduces cost of production, all other factors remaining constant. Sometimes the cost of labour justifies the relocation of a part of a process to another country. Recent studies however shows that with FDI going to technologically intensive activities, low cost unskilled labour is not in vogue. Rather there is demand for qualified human capital (Pigato, 2001).

Thus the firm investing is concerned about the quality of labour force. It is generally believed that the highly educated personnel are able to learn and adopt new technology faster, and cost of retraining is less. As a result for need for high quality labour force, investors are likely to target countries where the government maintains the liberal policy on the employment of expatriate staff. This is to enable investors to bring in foreigners to
their operation in order to bridge in the gap in the skill of local personnel wherever it exists. From the study it was established that all the top managers of the company are Kenyans except the Managing Director who is an expatriate. The management appreciated the quality of labour force in the country due to its educational system.

### 4.4.3 Availability of Infrastructure

The study established from the interviwees response that availability of infrastructure has acted as one of the main determinants for investing in the country. It is often stated that good infrastructure increases the productivity of the investments and therefore stimulates FDI inflows (Asiedu, 2002). A study by Wheeler and Moody (1992) found infrastructure to be very important and dominant for developing countries.

The interviewees appreciated that Kenya has good infrastructure which more advanced than its neighbours. In talking about infrastructure, it should be noted that this is not limited to roads alone, but includes telecommunications. Availablity and efficiency of telephone, for example, is necessary to facilitate communication between the host country and the home country. Kenya has major telecommunications companies with Safaricom, Airtel, Yu Mobile being the market leaders which make communications easier and faster.

In addition to physical infrastructure, financial infrastructure was also found to be important for the organizations FDI inflow. It was found that Kenya has a well developed financial system which has enabled it to tap the full benefits of FDI. Afaro et al, (2001), using a cross section data, found that poorly developed financial infrastructure can adversely affect an economys ability to take advantage of potential benefits of FDI. In a study by Bhinda, Griffith-Jones, and Martin (1999) it was found that problems related to funds mobilization were on the priority list on factors discouraging investors in Uganda, Tanzania and Zambia.

### 4.4.4 The Countrys Risk

From the study, it was established from the interviewees response that BDF perceived Kenya as low risk country as such it motivated it to directly invest in the country. FDI inflows are known to be affected negatively by political and economical uncertainty. With the advent of a democratic system of government and new constistution,
stable economy and resilient economy, Kenya offers a business environment which is perceived to be of low risk. In a study of foreign owned firms in Africa, Sachs and Sievers (1998) conclude that the greatest concern is political and macroeconomic stability, while Leyman(1999) and Jaspert et al,(2000) find that the countries that are less risk attract more FDI. Beiersdorf perceive Kenya as a low risk country.

4.4.5 Openess of the Economy

From the study it was established from the interviewees response that Beierdorf used the openness of Kenyan economy as part of its major driving forces to directly invest in the country. The more an economy is, the more likely it is that it will follow appropriate trade and exchange regimes and therefore it will attract more FDI. Kenyan economy is a liberalized economy, and the government does not control the exchange rate but rather its driven by laws of supply and demand.

4.4.6 The Business Environment

From the study it was also established that the insitustional environment in Kenya acted also as a driving force for BDF to directly invest in the country. The interviewees felt that cost of doing business in Kenya is less compared to other African countries though it longer to register the business. The interviewees also mentioned that in labour hiring, there is more flexibility in hiring and firing workers. On enforcement of contracts, the study established that recent legal and regulatory reforms have revamped the commercial courts.

The study also established that also majority of the respondents felt that access to land is not a major problem for firms intending to do direct investment in the country. The land is also affordable. It was also established that the duration of time required for registration of business is still very high but the process is less costly. Exiting the business activity also takes long. Bankruptcy process is lengthy compared to other markets, though not as costly. These characteristics seem not to be very inhibitive to attracting FDI.

4.4.7 Ways of Attracting More FDI in Kenya

The study established that the organization like other firms in the country felt that the government can do something on attracting more FDI into the country.
On policy incentives the interviewees felt that the existing Kenya Investment Authority should build more muscles to handle trade disputes and dumping claims and harmonize the investment incentives. The government should review licensing agreements, provide market information to Kenyan manufacturers, and support the private sector in identifying new markets, improving on quality of Kenyan goods, reducing non-commercial risks, organizing export trade fairs, and exploiting AGOA as a measure to increase trade and investment performance.

On cost of doing business, the interviewees felt that government should work on reducing the duration of registering a business as it takes long. More infrastructure need to be developed to fast track movement of goods and services. Fast and efficient railway system would make cost of transporting goods from the Port of Mombasa to Nairobi less costly hence lowering transport costs which account large percentage of costs incurred by manufacturers. Congestion at the port needs to be worked on to lessen the days goods spent at the port. The government needs to work on lowering cost of energy as currently makes Kenya less competitive in attracting foreign direct investment as such other sources of energy should be pursued other than hydro power.

On governance, the study established that from the respondents that corruption is still a factor discouraging some firms from investing in the country. They would wish the government to continue tackling it since it scares away foreign investors. The respondents also felt that the government should address the issue of insecurity and crimes and come up with more effective measures of containing them including tackling terrorism which threatens their investments and also hinders the movement of their expatriates.

4.5 Impacts of Foreign Direct Investment by BDF in Kenya

The study sought to establish whether the direct investment in Kenya by BDF has impacted on the economy. The researcher established from the respondents that they viewed FDI as the engine of growth for the Kenyan economy and associated it with various benefits by investment of BDF in Kenya.

One impact was on the economy of the country. It was established that the company pays corporate tax of 30% of its net profit to the exchequer hence boosting the economy of the country. The company has provided permanent employment to 70 staff in its operations.
in Kenya and has 5 employees within East Africa region. This staffs earn their living from working for the organization and also educate and sustain their families on the same. It was also established that BDF earns foreign currency for the country through its export activities to the neighbouring countries. The funds invested in the country by BDF increases the capital being injected into the Kenyan economy.

Direct investment in Kenya by BDF has made cosmetics manufacturing industries more competitive in the country. This has made consumers get high quality cosmetics products at affordable rate. This has made many manufacturers to be more innovative by coming up with more new products hence making consumers to have a choice of many products to buy.

The competition has also made Kenyan cosmetics industry more competitive and attractive to more multinational companies like L’Oreal of France which recently acquired a local manufacturer – Interconsumer Products in order to penetrate the Kenyan market. Other multinational firms in the industry with high market share are Unilever, PZ Cussons, Henkel East Africa, Johnson & Johnson and Proctor & Gamble. Local manufacturers include Inter Beauty Products, Tiger Brands and Buyline Industries to mention but a few.

By investing in Kenya, BDF has participated in technology transfer of cosmetic manufacturing. This technology is now available to the country and has immense benefits. This has also facilitated skills transfer as some of the staff of the company attend international trainings and seminars organized by the firm and the skills acquired are applied here in our country making our country to make goods and run the business on latest technology and skills. Some of this skills are also passed to other domestic companies via the audit done by BDF on its suppliers.

From the study it was also established that BDF investment has effected substantial growth to local industries. Some industries thrive on existence of BDF on their business as the company offers market to their goods. Some include suppliers of local raw materials, suppliers of primary and secondary packaging and other miscellaneous industries like security providers, stationery and supportive service providers like auditing firms and information technology.
4.6 Discussion of the Study

The findings of this study support findings of Ibi Ajay (2006) who established that the major driving forces for foreign direct investment in a country are general although there are some which are specific to some countries.

For BDF, the situation is not different. While it is difficult to establish the exact quality and quantity of FDI determinants that should be present in a location to determine for it to attract a given inflow, it is nevertheless clear that a minimum of this determinants must be present before FDI inflows begin to occur (Ngowi, 2001).

The profitability of an investment would be affected by specific factors, however including country characteristics as well as motives of the investment. As pointed out by Campos and Kinoshita (2003) market seeking investments will be attracted to a country that has large but fast growing market, while resource-seeking investors will search for a country with abundant natural resources. Thus factors influencing flow of FDI are wide.

BDF drivers for foreign direct investment in Kenya were majorly the availability of large and growing market in Kenya and access to the neighbouring market, the availability of skilled labour which is less costly, the availability of infrastructure, both physical and financial, perceivensens of the country as low risk country due to its stable political and economic environment and openness of the economy.

BDF has some challenges which affects its foreign direct investment in the country which include rising insecurity posed by terrorists, long duration of registering a business, corruption and bureaucracy in the government, high energy costs and high cost of road transport of goods.

BDF investment in the country has impacted positively to the economy of the country. The company has made capital available to the Kenyan economy, provided employment, enhanced the competiveness of the country and has also facilitated technology transfer to the country.
CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction
This chapter presents the summary, of key data findings, conclusion drawn from the findings highlighted and recommendations that were made. The conclusions and recommendations drawn were in quest of addressing research objectives of drivers of foreign direct investment by BDF in Kenya.

5.2 Summary of Findings
From the research findings presented in chapter four, interviewees worked in Operations, Quality, Warehousing and Distribution, Maintenance, Customer Service, Finance, Sales and Marketing, and General Administration.

Beiersdorf East Africa was motivated by some key drivers of foreign direct investment to invest in the country. While there are two forms of FDI, Greenfield investment on which the firm opens up whole owned subsidiary in a foreign country and mergers and acquisition on which a firm acquires some foreign firms in order to penetrate a certain foreign market, BDF pursued the option of Greenfield investment which enabled it to exercise full control of its affiliate in terms of management, marketing strategies and control of its unique technology.

The company critically evaluated the key drivers for direct investment before finally settling on investing in the country. It used the market size and growth of Kenyan economy as one of its key drivers of investment in the country. The company also used availability of skilled and low cost labour in the country, availability of good infrastructure as other key drivers of the investment. The identification of these key driving forces of foreign direct investment has been successful as the company has been growing in its sales turnover from one financial year to another.
5.3 Conclusion of the Study

From the findings, the study concludes that Beirsdorf used the size of the Kenyan market and its growth rate to directly invest in the country. This is because the Kenyan economy offers market to its products and gives access to the neighbouring countries markets. The study also concludes that BDF used availability of skilled labour in the country as a major driving force to invest in the country. Others key driving forces used by the company to invest in the country includes availability of good infrastructure, perceived low risk of the country and the openness of the economy.

The study also concludes that in its foreign direct investment, the company has been facing some challenges including high transportation costs of raw materials by road, dumping of counterfeit products, high energy costs and presence of insecurity in the country.

The study also concludes that BDF investment in the country has impacted positively to the country by availing capital resources in the country, providing employment to 70 Kenyans directly, has made the countrys cosmetics industry more competitive and has facilitated the technology transfer to the local working force.

5.4 Limitations of the Study

Being that this was a case study one organization among the cosmetics industry in Kenya, the data gathered might differ from the driving forces of foreign direct investment adopted by other organizations in Kenya. In addition, the organization under study is a affiliate of Beierdorf AG, which is based in Germany and is not listed in the Nairobi Stock Exchange.

Different organizations in different settings use different key critical driving forces to penetrate in a certain market or country. The study however constructed an effective research instrument that sought to elicit general and and specific information on driving forces for foreign direct investment in a country. The study faced both time and financial limitations. The durations that the study was to be conducted was limited which limited the extent of collecting real time data. Due to limited time, the study could not collect information through observation over a period of time to assess the success rate of adoption of these drivers of foreign direct investment.
The study however minimized these by conducting the interview at organization plant, and with senior managers who had substantive experience about the organization since they were involved in evaluating these critical driving forces for investing in the country.

5.5 Recommendation for Policy and Practice

To the management of Beiersdorf and other organizations the findings of this study would inform their identification of the key driving force to directly invest in the country. The managers may use the experience of BDF, to learn how to keenly evaluate the driving factors for investment in Kenya. Through the key critical driving forces adopted by BDF, managers in other organizations can borrow a leaf on how to invest more in the country.

To the policy makers, the study would be important in guiding the development of policies and guidelines governing licencing duration of business and creating a more conducive business environment which attracts foreign direct investment. Foreign direct investment drivers involve issues of policies especially considering the fact foreign direct investment is capital intensive and sensitive to thriving policies in a country. The study therefore should guide policy makers in drafting policies that would promote more foreign direct investment in the country.

Researchers and academicians should make use of this study as a basis upon which further studies on driving forces for foreign direct investment could be researched. The findings should contribute to professional extension of existing knowledge on driving forces for foreign direct investment by providing literature on driving forces for by Beiersdorf East Africa Limited.

5.6 Suggestion for Further Research

The study recommended that further research should be done on driving forces for foreign direct investment adopted by multinational banks in Kenya. This study covered driving forces for foreign direct investment adopted by BDF which is a cosmetics manufacturing industry. Many multinational banks are operating in the Kenyan economy and it would be imperative to know the major driving forces to invest in the country.
By doing so, the study would make it possible to generalize the findings of driving forces for foreign direct investment for both manufacturing and service industry in the Kenyan economy. The study further recommends that a similar study should be done to investigate factors that influence an organization to invest in a certain country both service and manufacturing industry and challenges encountered in the whole process for the purpose of bench marking hence allow for generalization of the findings of driving forces for foreign direct investment in Kenya.
REFERENCES


Jensen and P.K. Schott, University of Chicago Press.


[www.beiersdorf.com](http://www.beiersdorf.com).
APPENDIX: INTERVIEW GUIDE

INSTRUCTIONS
All information will be treated in the strictest confidence and will be used for research purposes only. Thank you.

PART A: GENERAL INFORMATION
1. Name (Optional)........................................................................................................................................
2. Designation/Position...................................................................................................................................
3. How long have you worked for Beiersdorf East Africa Limited.........................................................

PART B: DETERMINANTS OF FOREIGN DIRECT INVESTMENT IN KENYA
4. What are the main determinants for direct investment in Kenya by BDF in your view?
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5. In your opinion how does the size of the Kenyan market and growth rate affect investment in Kenya by BDF?
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6. Kindly highlight the role labour cost and level of skills in Kenya play in attracting the organisations foreign investment?
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8. How does openness of Kenyan’s economy affect BDF decision to invest in the country?

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9. In your opinion how does Kenya’s risk determine the BDF foreign direct investment?

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10. How can government encourage more foreign direct investment in a Kenya through tariff barriers?

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11. In your view kindly explain how labour laws affect BDF direct investment in Kenya

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12. How do factors of production affect the organisation direct investment in Kenya?

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PART C: IMPACTS OF FOREIGN DIRECT INVESTMENT IN KENYA

13. In what ways do you think the organisation through the foreign direct investment has influenced Kenyan economy?

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14. In your view in what ways do you think the organisation has enhanced growth of domestic firms?

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15. In what ways do you think foreign direct investment by the organisation affects working force in Kenya?

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16. In your view how does foreign direct investment in Kenya by the organisation affect levels of investable financial resources?

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17. In what ways has the organisation contributed to transfer of new technology in manufacturing in Kenya?

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Thank You for Your Co-Operation