

**CULTURE AND INVESTMENT DECISIONS AT  
NORWEGIAN INVESTMENT FUND FOR DEVELOPING  
COUNTRIES, NAIROBI OFFICE**

**BY:**

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**A RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILMENT  
OF THE REQUIREMENT OF THE AWARD OF THE DEGREE OF  
MASTER OF BUSINESS ADMINISTRATION  
SCHOOL OF BUSINESS,  
UNIVERSITY OF NAIROBI**

**OCTOBER, 2014**

**DECLARATION**

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

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

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## **ACKNOWLEDGEMENT**

Much appreciation goes to all those who offered me support while undertaking this research work. I am grateful to my supervisor Dr. John Yabs, University of Nairobi, School of Business for his guidance and advice that has seen me successfully complete this research.

To Norfund Nairobi office for their invaluable support in conducting this research.

My colleagues in the MBA classes, whose ideas through discussions have contributed a lot in undertaking this research

## **DEDICATION**

To my loving family for their support and patience during the entire period of my study. Their encouragement and continued prayers were instrumental towards the successful completion of this course.

I also pay tribute and gratitude to my colleagues for their assistance in various ways during this course.

Thank you and God bless you.

## ABSTRACT

The aim of this study was to find out the influence of culture on investment decisions by Norfund Nairobi office. 'Culture' is a set of values, beliefs, rules and institutions held by a specific group of people. It is the learned, shared and enduring orientation patterns in a society. Norfund being one of the more active developmental financial institutions in project financing within Eastern Africa formed the focus of the study. This study looked broadly at culture and investment decisions within Norfund, Nairobi Office and assessed the measures the company has taken to incorporate aspects of culture on the investment decisions. A qualitative approach was used whereby data was collected through interviews. The respondents included an investment director and an investment team based in Nairobi. The investment decisions taken by Norfund relate mainly to project financing and include among others new project support for funding, investment structure, post investment, project restructure and exit decisions. At each level of the investment decision making, different aspects of culture are experienced by the Nairobi investment team. The key findings in the study indicated that culture indeed influences investment decisions. This was particularly noted on investment projects affecting larger sections of the local community such as the large scale agricultural activities and hydro power projects involving large land ownership. This is because land ownership and use within the region is associated with the traditions and customs of the local community. Hence, the researcher recommended that when it comes to decision making, process concerning investment related to land, the financier and investee companies ought to involve the community as a major stakeholder in decision making. Key aspects of culture that was noted to directly influence investment decisions within Norfund included language and customs. Cultural issues related to level of trust, family structures within business set up, speed of project execution, level of state and political involvement in business activities were shown to influence the investment decision making within Norfund. Language plays an important role where investors have tried to incorporate it by getting translators or people who are familiar with the local language. In cases where local customs or traditions are not compatible with the company's policies, Norfund pulls out to avoid any conflict. Though culture played a role in influencing investment decisions there were also other factors that seemed to also affect the investment decisions such as market dynamics. The researcher finally suggested that Norfund needs to develop more policies incorporating cultural aspects in the markets Norfund operate particularly in investment decision making.

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## **LIST OF ACRONYMS**

CDC:	Commonwealth Development Corporation
DEG:	German Investment Corporation
DFI:	Development Finance Institutions
FDI:	Foreign Direct Investment
FMO:	The Netherlands Development Finance Company
HPP:	Hydro Power Project
INGO:	International Non-Governmental Organization
MNE:	Multi National Enterprise
NOK:	Norwegian Kroner
NORFUND:	Norwegian Investment fund for Developing Countries
OPIC:	Overseas Private Investment Corporation
PEPs:	Politically Exposed Persons
PROPARCO:	Investment and Promotions Company for Economic Corporation
UNCTAD:	United Nations Conference on Trade and Development

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# CHAPTER ONE

## INTRODUCTION

### 1.1 Background to the Study

Wild et al (2013) defined 'Culture' as a set of values, beliefs, rules and institutions held by a specific group of people. Culture also includes what people consider beautiful and tasteful, their traditional habits and the ways in which they relate to one another and their surroundings. They assert that Culture is a complex portrait of a people so much so that people have beliefs that their own culture is superior to that of others and hence may undermine international business projects. Cavusgil et al (2008) define culture as the learned, shared and enduring orientation patterns in a society. They add that people demonstrate their culture through values, ideas, attitudes, behaviors' and symbols. While Cavusgil points out that culture may prove difficult to identify and analyze, the effects of culture on international business are deep and broad.

Investment decisions involve several important issues with regard to management of the company and its market. Some of the issues are grounded on the firm's inner workings undertaking investments including control, cost of production, the market and the industry, preferences of customers. Investment decisions may entail trying to maintain ownership of a large portion of the local operation of even up to 100% in the belief that the greater the ownership, the greater the control, even so complete control may not be guaranteed.

Decisions made by companies going international represents it's strategic direction and intent and also lays a foundation for international success. Decisions include: what the company will invest in and the percentage of its earnings to invest in, what steps the management will take to ensure that all international ventures reach profitability within a given number of years since their launch, and also establish what annual budget to finance its international activities. Decisions that are paramount in many managerial tasks include; what products and services to develop, how to communicate and interact with foreign business partners, how to screen and select foreign distributors and other partners, how to negotiate and structure an international business venture etc. Investment decisions may be complicated when you consider cross cultural differences. Work place issues such as team work are critical to business success, therefore a manager may have to sensitize both foreign and domestic nationals to get along with each other and rally them around common goals. Decisions about promoting employees based on merit or age or performance need to be made. Decisions about who sits on the board or a business culture where workers and managers enjoy equal status.

This research study attempts to analyze aspects of culture on investment decisions within a Development Financial Institution set up and focuses primarily on Norwegian Investment Fund for Developing countries - Norfund. The study will focus attention on aspects of culture more specifically language, customs, religion, values and attitudes which will importantly impact investment decisions at Norfund. The study as well attempts to assess the measures taken to integrate these key aspects of culture in investment decision making. The study is supported by Hofstede's (1980) theoretical foundation on dimensions of culture.

According to Aubrey (1955), investors have to look into elements that would ultimately help them in maximization of profits. Conversely, countries seeking to attract investors have tried to come up with policies such as trade liberalization (UNCTAD 2004). However, in as much as countries adjust their policies so as to attract more investors, there are also other aspects that might be overlooked particularly in relation to culture.

Morosini (1998) claims that in order for international business projects to make it in other markets there is a need to understand unique cultures of other markets so as to minimize uncertainty on cultural differences and to gain knowledge on international business environments, this way decisions from a more globalized organization are more flexible as they will consider the cultural difference of a foreign investment. Such an organization also accumulates various strategies and increases its internal strength dealing on issues of cultural difference. Economic policies have always determined investment decisions. However, as markets continue to expand due to significant forces of globalization, how influential is culture? Has culture become more significant for investors? Furthermore, how do foreign investors deal with cultural aspects? This study focuses on Norfund, Nairobi Office. Hence, it is primarily based in a developing country. The decisions made by investors investing in developing countries will thus be put into perspective.

### **1.1.1. Concept of Culture**

The difference in culture is known to have an impact on social activity and habits. This impact is also felt in organizations especially in hierarchical relations, planning as well as how companies negotiate on the international platform. For instance, negotiations can be different from what foreign investors are used to in their own country or where they had

previously invested and succeeded as a firm (Deari et al. 2008). Hence, it is this difference in culture that makes it vital for international firms to make an assessment of a foreign market that they want to venture into and ultimately be successful. Furthermore, as international investment increases, understanding culture has become far more important. Kopp further argued that a business cannot afford to have an ethnocentric approach if it wants to reduce problems and remain competitive (1994).

A cross cultural environment is characterized by unfamiliar language, unique value systems, beliefs, manners and customs and behaviors and religion. Business partners and customers usually display different lifestyles, norms and behaviors and it is this differences which influence all dimensions of international business. Managers need to develop empathy and tolerance for cultural difference as it is the source of a company's competitive advantage. Cross cultural difference is paramount as managers develop products and services, communicating with foreign business partners, negotiating and structuring international business ventures and interacting with current and potential customers from abroad.

A new dimension from the cross cultural framework known as Confucian dynamism relates to whether a culture is universalistic or particularistic i.e. what is true and good can be applied everywhere, whereas particular culture believe circumstances and relationships are more important in determining what is good and right (Hofstede, 2001).

### **1.1.2 Investment Decisions**

Foreign investment firms have to make a myriad of decisions especially in a foreign market. These decisions range from what to invest in, which can be as simple as building a factory in a foreign country and acquiring part of a foreign company through buying shares in a firms and so on. Many of such decisions are highly dependent on what the company can gain from making such decisions (Graham & Spaulding, 2005). However, one cannot also ignore that the investment decisions made also depends on the culture of the foreign market. This is because research in international business has clearly distinguished between activities that go beyond national boundaries which constitute cultural and physical environment and activities that penetrate barriers imposed by the local government. International business is more about the market adjustments or distortions made in order to fit in a different environment (Grosse & Behrman, 1992).

The investment decisions made are thus dependent on the social-cultural environment that a foreign investor wishes to operate in. For instance, in a society where foreigners are expected to fund a project but the local community to own the project the foreign investors may not be so keen in funding 100% of the project. On the other hand foreign investors may choose the duration of their investment because they do not see the direct positive impact that they may have as a company. Hence, investment decisions are about the norms and perceptions of a society especially when in a foreign territory.

People approach business decisions differently depending on where they are from because of cultural differences, Alter (2013). Alter further adds that sometimes cultural misunderstandings make for good comedy, but when regional superstitions have financial

implications, cultural sensitivity can be the difference between profit and loss. According to Lewis (2007), Negotiations lead to decisions however the cultural groups will determine how the decisions will be made, how long they take to be made and the finality of the decision once made. The success of a business is greatly determined by the method used by companies to venture into new markets that surpass its domestic boundaries. A company that chooses to go international therefore faces a great challenge in terms of choosing the ideal structural arrangements. Going international means going to a spectrum of locations that would ultimately contribute to value added activities (Deari, Kimmel & Lopez, 2008). According to Root, there are various reasons for companies to venture into the international market. For instance, domestic markets might be growing faster or companies may just decide to follow customers who have gone abroad (1994).

The investment decisions determined by DFI's (Development Finance Institutions) especially in foreign direct investment are very important. Foreign direct investment is direct ownership of facilities or assets in a targeted country. This can occur through acquisition of an institution or establishing a new enterprise. Direct ownership gives a higher degree of control in terms of operations as well as the ability to know the competitive environment and consumers. However, it also requires a high level of commitment and resources especially in relation to culture. This is because the suitable adjustments in terms of national differences have to be made (QuickMBA. 2010).



### **1.1.3. Development Finance Institutions (DFIs)**

Development Finance Institutions are institutions which invest for official development and do not give funds away as a traditional aid, but invest in or lend the funds to commercial enterprises. As the case study has it Norfund is an example of a (DFI). Dickinson (2008) points out that Development finance institutions (DFIs) fill the gap between public aid and private investment, hence ‘facilitating international capital flows. Unlike aid agencies DFIs focus on profitable investments and share a common focus on fostering economic growth and sustainable development. Other examples of DFIs include CDC of Britain, PROPARCO of France, FMO of Netherlands, and DEG of Germany, OPIC of United States, The European Investment Bank which is Regional and Multilaterals such as World Bank’s International Finance Corporation.

### **1.1.4. Norwegian Investment fund for Developing Countries**

From the Interviews conducted, The Respondents who are mainly staff of Norfund Nairobi Office had the following to say about Norfund:

Norwegian Investment Fund for Developing Countries (Norfund) was established by the Norwegian Parliament in 1997 to combat poverty through private sector development. Norfund’s objective is to contribute to sustainable commercial businesses in developing countries. Norfund is a state-owned company with limited liability, established by a special Act of the Norwegian Parliament. Norfund is owned on behalf of the Norwegian government by the Ministry of Foreign Affairs. The Norwegian Ministry of Foreign Affairs has constitutional responsibility for the organization and Norfund’s Board of Directors is appointed by the Norwegian King in Council.

Norfund's mandate is defined by the Norwegian Parliament. According to the Norfund Act (1997), Norfund's purpose is to create sustainable commercial activities in developing countries by establishing and developing viable, profitable enterprises beyond what would otherwise be possible. Norfund provides equity, other risk capital and loans to companies in selected countries and sectors where businesses lack access to sufficient capital to develop and grow.

Norfund's main investment regions are Southern and Eastern Africa and have offices in Nairobi, Johannesburg and Maputo. Norfund also invests in selected countries in Southeast Asia and Central America through their regional offices in Bangkok and San Jose.

### **Norfund Nairobi Office**

Norfund Nairobi office was opened in 2009. The office oversees the operations of Norfund in Eastern Africa with investment activities in Kenya, Uganda, Tanzania, South Sudan and Rwanda. The office has done several investments in Eastern Africa some of which are summarized in Table 1 below:

**Table 1: Investment Projects by Norfund, Nairobi Office**

<b>Company Name</b>	<b>Country</b>	<b>Sector</b>	<b>Instrument</b>	<b>Amount in NOK</b>
Kinangop Wind Park Ltd	Kenya	Energy	Equity	84.3M
Bugoye HPP	Uganda	Energy	Equity	42.1M
Alios Finance Tanzania	Tanzania	Financial	Loan	27.4M
Micro Africa Ltd	Kenya	Microcredit	Loan	5.7M
EXIM Bank Tanzania	Tanzania	Banking	Equity	22.8M
DFCU Ltd	Uganda	Banking	Equity	157.6M
UAP Properties Ltd	S. Sudan	Real Estate	Loan	30.4M
Yara Fertilizer Terminal	Tanzania	Manufacturing	Loan	36.5M
TPS Dar es Salaam	Tanzania	Hospitality	Equity & Loan	58M
Agrica	Tanzania	Agriculture	Equity	77.1M
TPS Rwanda	Rwanda	Hospitality	Equity & Loan	29.0M
Africado Ltd	Tanzania	Agriculture	Equity & Loan	21.0M
Green Resources	Tanzania	Agriculture	Equity & Loan	125.3M
Fula Rapids	S. Sudan	Energy	Loan	12.2M
Kikagati HPP PDF	Uganda	Energy	Loan	8.5M
Kinyeti Venture Capital	S. Sudan	Financial	Equity	22.1M
Hydel Hydro Power PDF	Kenya	Energy	Loan	9.1M
Lake Turkana Wind	Kenya	Energy	Loan	14.8M
Base Camp Explorer	Kenya	Tourism	Equity & Loan	10.0M
Fanisi Venture Capital	Kenya	Financial	Equity	84.9M

Norwegian Investment Fund for Developing Countries, Norfund, is owned by the Norwegian government and the fund invests to establish and develop profitable and sustainable enterprises. Norfund contributes to economic growth, poverty reduction, job creation in developing countries and boosts the private sector and reduces dependency on aid. The Norwegian parliament, 'the Storting', allocates annual capital grants to Norfund in its development assistance budget.

Norfund's investment partners are both Norwegian or foreign small and medium sized businesses which focus on renewable energy, agribusiness, agriculture and financial institutions, investing in Eastern and Southern Africa. Norfund's portfolio is USD 1.3 billion and has around fifty employees including five employees based in the Nairobi Office.

Norfund offers risk capital finance in the form of Equity and debt instruments but predominantly equity investments. With equity investments, Norfund targets less than 50% shareholding in the investee companies and takes an active role in the board of the company. Typical investment size ranges from USD 3million. Norfund always invests together with partners with deep industry knowledge. The investment horizon is 5-10 years.

Southern and East Africa are Norfund's main investment areas, and the Fund has offices in Nairobi, Johannesburg and Maputo. Norfund also targets selected countries in South-East Asia and Central America and has regional offices in San José and Bangkok.

## **1.2 Research Problem**

The difference in culture of the organization and the host country or where it plans to invest has an impact on the efficiency and effectiveness on the measures taken by companies to reduce conflict (Straub et al., 2002). It is therefore imperative for companies to find the relevant mechanism that can be put in place to integrate the culture of the host country so that it can gain competitive advantage. The global market is very competitive; hence companies have to find a niche where it can stand out by looking at all factors that will affect its success. These factors do not only include economic factors of a given foreign market but also social cultural factors.

There are quite a number of studies that have focused on culture and investment. In “The Effect of National Culture on the Investment Choice between Licensing and Direct Foreign Investment” by Shane, it is argued that national differences in levels of trust have an implication on the perceptions of transactions costs. This thus influences the interest of internalization and the mode of an entry into a foreign market (Shane, 1994). However, this paper focuses on the issue of trust as the only cultural difference aspect that exists yet there are many aspects that can be used to distinguish different cultures.

Kogut and Singh’s research on the other hand looks into the, “The effect of National Culture on the Choice of Entry Mode” it does not focus on a specific aspect of culture but rather on how the choice of entry mode is affected by culture (1988). Hence, it gives a broader perspective of culture. Nevertheless, this research only answers why culture influences mode of entry. There is no insight on how it influences mode of entry and

what mechanism foreign investors have used to enter a market without creating conflict.

Dearie et al (2008) however acknowledges the new and unfamiliar challenges like culture which can hamper cooperation; there may be problems of language, difficulty in pricing and collisions in culture especially in the beginning. Schumpeter has also observed that most studies of globalization tend to focus on changes occurring in the economic and political spheres and that observers of globalization are increasingly recognizing that globalization is having a significant impact on matters such as local cultures.

This study has identified gaps that culture is indeed a major factor that many Developmental Financial Institutions have to contend while going international. Culture as a factor in International Business has been studied severally, however very little has been done in regard to the DFI context and its resultant impact in investment decisions. Whereas culture is deep and broad, this research Study will focus attention on aspects of Culture; namely Language, Customs, Religion, Values and Attitudes in order to analyze the influence they have on investment decisions at Norfund, Nairobi Office. This study will hopefully fill the gap in converging cultural values and it is hoped it will be a basis of knowledge to other investment companies and will maximize generalizing on issues that surround culture and all potential aspects of culture.

The research question was; how does culture influence investment decisions at Norfund and what measures has the company taken to integrate the aspects of culture?

### **1.3 Research Objective**

The research objective of the study was to analyze the influence of culture on investment decisions at Norwegian Investment fund for Developing Countries.

#### **Specific Objectives**

- (i) To examine the influence of aspects of culture on investment decisions in the Norwegian Investment Fund for Developing Countries, Nairobi Office.
- (ii) To assess the various measures that Norfund takes to integrate aspects of culture on their investment decisions.

### **1.4 Value of the Study**

The study will be useful in deepening the understanding of integrating aspects of culture and Investment decisions and provide recommendations to international and national governments, Funding Institutions, International business projects and policy makers in their work. The general public will also benefit from the study. The study will give recommendations and will be instrumental in the way INGOs, governments, Investors and DFIs formulate policies or standards on culture and investments. Based on the significance and importance of this study, it is worthy of the time and any other resources necessary to proceed with this study and add this wealth of knowledge to the existing body of knowledge on issues of culture and investments in Development Finance Institutions.

To the researchers, contribution to theory and practice means benefitting from the findings and recommendations as a basis of their research work. The project work will be obtainable at the School of Business resource centre for use as reference for academic and research purposes. The study is useful in deepening the understanding of integrating aspects of culture and investment decisions. Though there are other factors that influence investment decisions culture tends to be overlooked. Hence, this paper gives a more pragmatic aspect of the influence culture on investment decisions by international investors.

Culture and Investment Decisions is significant to International actors in INGOs, international businesses, investors in private equity firms, investors in foreign direct investments, investors in portfolio investments, Development Finance Institutions, development agencies and governments when considering investing for a number of reasons; maximizing profitability, alleviating poverty and efficiency. These should be an integral part for any great impact to be made. This cannot be achieved without factoring in various aspects of culture. Different markets have their own unique cultural elements. This paper therefore looks at what those working in the investment industry have to deal with when venturing in to the international market. The liberalization of markets and other economic policies embraced by countries may not necessarily guarantee investments by international entities. Furthermore, there is a constant increase in companies going international. This has overly increased the destination of companies as the world opens up to foreign companies. Competition depicted by foreign companies operating abroad has also thus faced a greater task in terms of making decision (Deari et al., 2008). This paper puts into perspective the influence of culture in the investment industry.



## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

This section contains a review of past studies, from researchers and academicians who studied the similar subject being investigated. This study however will specifically look at language and customs as aspects of culture which influence investment decisions. It will also attempt to assess various measures that Norfund Nairobi Office takes to integrate aspects of culture on their investment decisions.

#### **2.2 Theoretical Foundations**

In this section, we are attempting to give a theoretical framework which may help understand better the topic of influence of culture on investment decisions in international business. Two theoretical Foundations will be explored the first one is Hofstede's Dimension of Culture which has been widely accepted as a tool to interpret cultural differences and also to classify countries. This is to say that Nations can be culturally similar or close or culturally distant. The second one is Edward's Social Control Systems.

Uncertainty Avoidance is Hofstede's theory which refers to the extent to which people can tolerate risk and uncertainty in their lives. Those with high uncertainty avoidance can then minimize risk and ensure financial security. In this regard, Companies emphasize on stable careers with many rules to regulate workers and minimize on ambiguity. Also managers may be slow in making decisions seeing that they have to investigate the nature and potential outcomes of an issue. Low uncertainty avoidance societies on the other hand have socialized their people to get accustomed to uncertainty. Managers make

decisions quickly. People accept the days as they come. Countries representing high uncertainty avoidance are Japan, Belgium and France; countries with low uncertainty avoidance are India, Ireland, Jamaica and United States.

Masculinity Versus Femininity states that a society's orientation is based on female versus male values, where the male value competitiveness, assertiveness, ambition and accumulation of wealth and the female nurture roles, interdependence among people and take care of less fortunate people. Examples from the former are from Australia and Japan and the latter from Scandinavian countries. The fifth Dimension according to Hofstede is that of Long term versus short term which denotes the degree to which people and organizations defer gratification to achieve long term success, that is to say that firms or people with long term dimensions tend to take the long view to planning and living, these includes values such as loyalty, discipline, hard work, regard for education, esteem for the family, focus on group harmony and control over one's desires.

Individualism is another aspect of culture, where Hofstede asserts that the difference in culture can occur along individualism and collectivism. For instance, in individualistic societies the ties among people are loose whereby everybody is expected to look out for their immediate families and themselves. On the other hand in collectivistic societies, people are in strong cohesive in-groups where members of an extended family protect one another. In such cases loyalty is highly valued (Hofstede, 2001).

Hofstede also added power distance as an important aspect in culture where the units or institutions of a society for instance, family expect and accept that there is not equality

and distribution of power. Cultures that have a low power distance want power to be distributed equally. Additionally, such societies value democracy (Hofstede, 2001).

According to social control systems laid down by Ross (2009), in order for people to survive there must be some customary ways of preserving social order. Hence, societies must develop mechanisms to ensure that people conform to the norms. Failure to conform to these norms will increase the chances of people violating each other's rights which would ultimately lead to a state of anarchy. Different societies maintain social order in different ways. For instance, the United States behavior control is dependent on formal mechanisms such as the police who are the law enforcers, penal institutions and the federal laws. Other societies also have different means of controlling individuals but they are not less effective. Despite the existence of different methods in controlling a society's behavior one cannot deny that every society has a system to control people. This system is known as the social control system. It is also worth noting that there are certain constraints that culturally different people depend on so as to maintain social order including managers operating in an international workforce. Corporations operating abroad are likely to be more successful if local mechanisms are used to maintain social control rather than simply imposing a social system that only works in their home office (Ross, 2009). In international business the social control systems which are embedded in the host's country's culture cannot therefore be ignored. International businesses need to cease thinking as if they are operating in a similar system and start readjusting to the cultural environment under which they operate.

### **2.3 Culture and International Business**

Salmon (2011) observes the studies shown in 2009 and 2010 showing links between culture and attractiveness of different regions, this was also observed in a study done on decision models linked to an investment in a cultural project. Kogut et al., (1988) add that studies have been made on cultural factors determining strategic alliances between joint ventures and fully owned subsidiaries. They add that both joint ventures investments and owned subsidiary are proven to be a desirable strategy of foreign market entry mode where exists large cultural difference, investigations therefore have been made to see whether cultural difference can make a less impact on performance of a Multi-National Enterprise (MNE) with more global business experience.

Rifkin (2001) writes that the powers that be have for a long time supposed that the world is divided into two spheres of power: The first is commerce and the second is the government. the cultural sphere which is composed of the environment, species preservation, rural life, health, food, religion, human rights, the family, women's issues, ethnic heritage, the arts and other quality-of-life issues are represented by organizations or civil society which are demanding for political and economic space in the world and are a remedy to forces of globalization. Barlow (2001) "views culture of many societies and in particularly indigenous peoples as their richest heritage; otherwise they have no roots no history or no soul. He adds that its value cannot be monetarised. Rothkopf (1997) states that to commodify it is to destroy it. However he argues that much as the influences of globalization are condemned by nationalists and culturalists, globalization promotes integration, removes cultural barriers and many negative dimensions of culture.

According to researchers, there are three main approaches which can be used to operationalize culture that is through language, beliefs/ value systems and material good or artefacts. Language is used for presenting and organizing the world but it cannot be used alone in terms of interpreting and explaining different behaviors or attitudes across cultures and sub-cultures. Additionally, it does not indicate ethnicity. Artefacts and possessions are tangible aspects that can be used to depict a certain culture since they embody cultural meaning. Conversely there is also value/belief systems, for instance, relations with others, fatalism and materialism. Such operational definitions are deemed to contribute to the understanding of cross cultural consumer behavior (Soares et al., 2006). In the case of Foreign Direct Investment, customs which can be associated with value/ belief systems and language can be used to measure the influence of aspects of culture on investment decisions. Culture is very broad and complicated (Soares et al., 2006). It is therefore important to look at specific aspects of culture when conducting research. Sekaran explains that, “Culturally normed behavior and patterns of socialization could often stem from a mix of religious beliefs, economic and political exigencies and so on. Sorting these out in a clear-cut fashion would be extremely difficult, if not totally impossible (Soares et al p.278).

Customs as defined by the Merriam Webster dictionary is an action or a way of behaving that is usual and traditional among the people in a particular group or place, a usage or practice common to many or to a particular place or class or habitual with an individual, long-established practice considered as unwritten law, repeated practice, the whole body of usages, practices, or conventions that regulate social life. According to Deari et al (2008), manners and customs of personnel in that new culture is a measure a DFI can

take before entering the foreign country. It is important to take note of positive or negative impressions so as to know what way to take. Deari continues to explain that foreign cultures have different ways of doing business, such as planning way ahead and keeping timely deadlines. Brown (2014) agrees that it is important to understand cultural differences in the business world so as to overcome language barriers and in order to succeed in daily business operations communication is imperative. Business deals are easily won and maintained because the parties involved took time to learn about each other's cultures prior to interacting; to learn basic customs, mannerisms and gestures.

Language can be an obstacle in a foreign country, especially in negotiations yet it is an integral part of doing business. Knowledge of a foreign language leads to a more successful business. In addition to this, not knowing a language is quite disadvantageous given that hiring a translator would be inevitable. However, knowing a foreign language makes business transactions better because building partnerships and relationships become easy and less time consuming. Language barrier during a negotiation process is also prone to misunderstandings and lies (Deari et al., 2008). As a result suspicion can lead to future problems when signing deals or contracts. The host country may also choose to lock out firms due to language barrier. Host countries are more likely to feel appreciated and respected when foreign investors take time to learn their language because it is a sign of enthusiasm. In order to guarantee more business partnership foreigners may look at the national language and make a decision on whether to invest or not. Lewis (2007) says that Language is a poor communication tool unless each word or phrase is seen in its original cultural context.

Brown (2014) acknowledges that it is important to understand foreign culture, to respect it without forcing beliefs on people. It can be useful to consider learning the host country's language so that respect and trust can more easily be won and gain more competitive advantages. Brown advises that people from different cultures speak differently, some speak assertively while others loudly. Others speak softly and others in neutral tone. It is therefore important to make a conscious effort to accommodate each other so as to foster effective business communication. With the values we possess, diverse cultures view the negotiation process in a different light, with different expectations about its conduct and outcome. The values, phobias, rituals of the particular cultural groups make themselves evident as soon as the talks/negotiations begin Lewis (2007)

Values are the ideas and beliefs to which people are accustomed to whereas attitudes are the positive or negative evaluations, feelings and tendencies that individuals harbor toward objects or concepts, Wild (2013). Values and attitudes represent a person's judgments about what is good or bad, acceptable or not, important or not and what is normal or abnormal. People develop attitudes based on their values. Attitudes and opinions are similar but attitude is unconsciously held and may be rational. Prejudices are unfavorable attitudes which are aimed at particular groups of people, Cavusgil et al (2008). Typical values include concepts of honesty, freedom and responsibility, hard work, punctuality or even acquisition of wealth. Values are important for business as they affect work ethic and desire for material possessions. Attitudes reflect underlying values and attitudes differ from one country to the next as they are formed within a cultural context and where attitudes are more flexible, values are rigid over time.

Religion according to Cavusgil et al (2008) is a system of thought which people regard as sacred, divine or the highest truth. This also incorporates the moral codes, values, institutions and traditions and rituals. Nearly every culture has religious beliefs and hence influences business and consumer behaviors in many different ways. Different Religions take different views of work, savings and material goods so that they may understand business practices in other cultures. This is especially important to know where countries have religious governments Wild (2013). For example the Quran of the Muslims prohibits drinking alcohol, gambling and arrogant exposure. These prohibitions affect firms dealing in this industries as well as banks and institutions that lend money. Most countries are home to people of various beliefs.

#### **2.4 Cultural Implications on Foreign Direct Investments**

According to Chen & Chen, foreign direct investment (FDI) is greatly determined by social network resources that can be used by investors (1998). Research conducted by Dimaggio and Bandelj address the impact of cultural compatibility and cultural tie on local choice of FDI. Some literature argues that the magnitude of FDI is associated with the kind of mutual independence that is among the key players. On the other hand, the extent of FDI is attributed to the rush among competitors to emerging economies hence, triggering the bandwagon effect (Weng 2011). Foreign Direct Investment (FDI) is therefore understood as a multi-national and complex phenomenon (Sethi et al., 2003). This makes it more imperative not to overlook social aspects such as culture when looking at causal factors of investment decisions made by investors.



Literature Studies focusing on FDI in Developing Countries have shown the increase in the number of companies that go global meaning that there is a greater need to be more innovative so as to remain competitive and relevant. Hence, the establishment of business operations abroad is attributed to the need to thrive and survive in an increasingly competitive global market (Deari, Kimmel & Lopez, 2008). However, it is also worth noting that companies have to look at their new location, which is whether it is a developing or a developed country.

## **2.5 Managing Cultural Differences**

The forces of globalization may have opened emerging markets and thus giving an opportunity to many investors. However, this does not also imply that the cultural diversity no longer exists. Investors have to look at how they can take advantage of the global market without underestimating the culture of the country they intend to invest or imposing their culture in a foreign land. Hoecklin identifies four major strategies or measures that can be embraced by investors to reduce cultural conflict: Establishing a resilient corporate culture internationally, developing a common professional or technical culture worldwide, depending on strong financial or planning systems and leaving each culture as it is (1995).

Firms that decided to venture into the international market did so in foreign countries that have similar attributes that is both cultural and psychological. The cultural distance effect can be used to explain this fact. Doing business in a similar country enables a company to gain experience and even to be in a better position in coming up with relevant methods in getting fully integrated into a new market. The success of a firm in one foreign country

can be translated into another successful business venture in another foreign country that is if a similar strategy is implemented. When a company enters foreign countries in an expanding circle that is away from its domestic market, the firm will come to understand and learn more about how to gain the competitive advantage in a foreign market (Johansson, 2000).

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

This chapter looked at the research methodology that was applied to answer the research questions described in chapter one. The methodology included case study, data collection, content analysis and data analysis. Justification was provided for all methodologies presented during the process of data collection.

#### **3.2 Research Design**

The research was a case study on Norfund, Nairobi office. The use of a case study was a useful tool for investigating trends and specific situations in many scientific disciplines. This methodology tests theoretical models by using them in real world situations. A case study provides more realistic responses than a purely statistical survey. Case studies are flexible and make interesting topics. It is based on opinion and is designed to provoke reasoned debate, seeing as in a case study there is really neither right nor wrong answer.

According to Yin a case study research method is “an empirical inquiry that investigates a contemporary phenomenon within its real-life context; when the boundaries between phenomenon and context are not clearly evident, and in which multiple sources of evidence are used” (Yin, 1984, p. 23). This means it is capable of providing clear defined information and its findings can be considered to be conclusive enough. Furthermore, the reliability and validity of the data collected can be further enhanced.

### **3.3 Data Collection**

Interview questionnaire guided the researcher to collect data from five respondents at Norfund, Nairobi Office, as it was appropriate in the case study whereby there was need for in depth collection of data. There was thus an aspect of probing during the interview, which was good in terms of stimulating complete and valuable information that was relevant to the research. Furthermore, there was more room for the researcher to get clarification and respondents were able to recall relevant information. (Barriball & While, 1993).

As earlier mentioned one of the key strengths of a case study is that there are multiple techniques and sources which can be used in the data collection process (Yin 1984). For this particular study face to face interview was used as a tool to collect primary data. The main purpose of primary data collection was to establish a ground for more analysis as well as find data that could fit into the research questions (Deari et al., 2008). Employees in Norfund, Nairobi Office were interviewed. The interview questionnaires were prepared in advance so that the researcher could become familiar with the questions to be asked during an interview. This would also help the researcher in using the data gathering tool in a proper and systematic way (Yin, 1984). This trend would also help in improving the validity and reliability of the data collected.

### **3.4 Data Analysis**

Analyzing the results of the study was opinion based, since the method of collecting data was through use of interviews but with the use of an interview guide so as to have the data collected and be manageable in constructing a narrative around it. The narrative was

concise and interesting so as to judge the trends. Qualitative data was collected and used. The use of qualitative methods would improve the chances of coming up with more comprehensive answers to the research questions. (Research, n.d.). The researcher used qualitative analysis as a method of inferential statistics to understand the collected data, for better interpretation, conclusion and recommendations. Unlike in quantitative analysis where numbers are coded and used for interpretation, qualitative analysis entails the use of texts or narratives and sometimes diagrams.

Content analysis is an additional methodology that is qualitative and that is used to collect secondary data, where by all sort of recorded communication related to the study is collected and used to complement the primary data collected. Transcripts of interviews and documents were used to make inferences and analyze the content of this study. Academic journals, books and the internet were used to collect secondary data. Secondary data gives a wider perspective on the topic in general and helps in identifying aspects that might have been overlooked in previous research papers. Additionally, other than being used as a basis of this research, secondary data was used to develop ideas for further research. Content analysis would be used to confirm the hypothesis that culture's influence on investment decisions within a Development Finance Institution are deep and broad.

## **CHAPTER FOUR**

### **DATA ANALYSIS, RESULTS AND DISCUSSION**

#### **4.1 Introduction**

The purpose of this study was to find how culture influences investment decisions at the Norwegian Investment fund for Developing Countries. This chapter therefore presents results and discussions of the study from the data collected from interviews and group discussions; whereby the researcher sorted to find views and opinions in examining the influence of aspects of culture on investment decisions in the Norwegian Investment Fund for Developing Countries, Nairobi Office and assessing the various measures that Norfund takes to integrate aspects of culture on their investment decisions. The chapter presents the findings qualitatively with clear discussions of each finding.

#### **4.2 Presentation and Analysis of Findings from Norfund, Nairobi Office**

The Response Rate was at 100%. All the 5 respondents managed to answer all the questions satisfactorily. The respondents in the Nairobi Office were mainly, an Investment Director, an investment team of three investment managers and an office manager, who have been in operation for 5 years. All the 5 respondents gave valid views on the influence of culture on investment decisions in any international business, that although the aspects of culture may pose a challenge in managing international business, aspects of culture are very important in the success of Norfund's activities.

##### **4.2.1 Responses on Investment Decisions within Norfund**

Majority of the Respondents felt that Norfund Nairobi office takes various investment decisions in fulfilment of its mandate. The Respondents discussed the investment decision making process as follows:

#### **4.2.1.1 New Project Proposal Support Decision**

All new projects proposals received are subjected to due diligence process prior to submission for approval by the investment committee. The due diligence process aims to establish the viability of the project, experience of the sponsors of the project, project market dynamics among others. The investment team in Nairobi conducts a “mock” approval process prior to submission to the Investment committee based in Oslo for final approval.

The respondents mentioned that, the decision to proceed with or support any new investment proposal to the investment committee level, the structuring of the investment in form of debt or equity and subsequent follow up of the projects are determined by the Nairobi investment team. The investment team deals directly with the project sponsors from the onset of receiving the project proposal to the final exit from the project. During this interaction, the investment team has also to make enquiries from other stakeholders who directly or indirectly are affected by the actions of the proposed project. Hence, the ultimate decision made by Nairobi Investment team undergoes intensive scrutiny and it is at this stage that cultural influences are experienced. The involvement of stakeholders is also an indication that the investment team does not want to overlook aspects that will influence the feasibility of a particular project or proposal. The decision to endorse a project is not done in isolation, but encompasses various relevant entities.

#### **4.2.1.2 Investment Structure Decisions**

The respondents all agreed that Norfund investments done by the Nairobi investment team are structured using either debt, equity or a combination of both instruments. The

Company gives preference to equity investments since equity is the scarcest type of capital. Through equity investment as opposed to debt, Norfund is able to influence the decisions of the investee company.

The decision to use either debt or equity instruments is also determined among others by the size of the investment, contribution by the sponsors, value of the shares of the existing company, years of operation of the company, influence of the sponsor on the company and the market dynamics in the given sector. Debt investments give predictable cash-flow while equity investment is patient capital whose return is in form of annual dividends or exit from the investee company.

One can conclude that the preference of equity investments over debt investments is based on the nature of the market. The respondents did not directly mention culture as a significant component of Norfund's structure particularly on investment decisions. It is also worth noting that investment decisions depends on an existing gap that Norfund wishes to fill in the market for instance choice of equity investment is as a result of its scarcity in the market. Additionally, the fact that Norfund can influence the decisions of an investee company makes equity investment a more viable option as an investment instrument. Norfund's structure in terms of making investment decisions does not directly involve the cultural aspect.

#### **4.2.1.3 Post Investment Follow Up Decisions**

According to the respondents, Norfund spends considerable time and resources following up and strengthening the companies in which they invest and this helps in making them sustainable. The investment team monitors the investee companies closely to ensure



responsible corporate governance. The post investment follow up is also meant to ensure that the investee companies are complying with the domestic laws and international standards, practicing satisfactory corporate governance and taking into account environmental and social concerns. Norfund values the conduct of investee companies so that they do not interfere with the norms of a society. Monitoring is thus an essential part of Norfund. One respondent emphasized that the company is likely to withdraw its funds when the activities of an investee company contradicts with the norms or values of a society.

Equity investment requires Norfund to nominate board members to the investee companies. The board members are appointed based on technical skill required by the investee companies and these can either be from the local population or from the neighboring region. A Recommendation for board members in investee companies is done by investment team together with the Investment Director in Nairobi and formally appointed by Norfund Managing Director.

#### **4.2.1.4 Project Restructure and Exit Decisions**

Each project approved is assigned a portfolio manager who is responsible for the project. The portfolio manager works hand in hand with the investment manager who sought approval for the project. The portfolio manager makes a call on whether to resubmit a project, already funded, back to the investment committee for restructure when facing challenges in its cash-flow. This decision is based on the inability of the investee company to meet its obligations when they fall due.

Norfund also makes exit decisions for both debt and equity investments. The exit can either be planned or unplanned. Planned exit decisions especially in equity investments are provided for in the shareholders agreement. The shareholders agreement, signed prior to disbursement, would stipulate the mode of exit by Norfund from an investee company. For investments that have failed, Norfund makes an unplanned exit. Project exit decisions at Norfund can either be planned or unplanned for both debt and equity investments. Unplanned project exits are usually for projects in distress.

#### **4.2.2 Responses on Challenges faced by Norfund in Making Investment Decisions**

One respondent shared that, while making its investment decisions across different countries within Eastern Africa, Norfund is faced with a myriad of challenges including weak legal frameworks and institutions, complex issues about property rights, lack of experience and weak infrastructure.

#### **4.2.3 Responses on Culture and Investment Decisions**

All the respondents shared that Norfund Nairobi Office in its operations, does interact with different cultures in the different countries it operates, in the following specific aspects:

##### **4.2.3.1 Language**

Norfund team conducts due diligence on all new project proposals received. The due diligence entails interacting with various stakeholders who directly or indirectly are affected by the project proposal. During interaction with stakeholders there are cultural differences that come up including language. Two respondents noted that, in renewable energy projects and in particular hydro power projects in Uganda, part of the due

diligence involves discussions with the local community on issues relating to land compensation, possible benefits of the project to the community as well as environmental effects of the project. Given the level of education among the rural communities in Kenya, Tanzania and Uganda, Norfund investment team makes use of translators and local community leaders to communicate to the local community in the language they best understand.

Agricultural projects involving export of food crops, the investment team has to interact with the small holder farmers who supply the potential investee company with fresh produce. This is to understand how they grow, harvest and store the crops, their relationship with the potential investee company, contracts if any signed by the exporter among others. Most of the small holder farmers are unable to communicate in English, necessitating using of local translators at the due diligence phase.

Some projects especially from Burundi have French speaking sponsors with the proposals presented also in the same language. This has posed a challenge for the Norfund Nairobi team. The investment team does not have a French speaking investment manager. For these projects, the investment team has opted to partner with French speaking Development Financial Institution such as Proparco. A translator is employed to assist in the due diligence and drafting of the agreements.

All the respondents seemed to concur on the importance of involving people who understand the local language. Through further probing, one respondent stated that language influences people's attitudes on potential investors. Having translators who understand the local language is something that the local community values. Local

communities do not feel alienated when their local language is used. Furthermore, there is a greater sense of ownership of a project.

#### **4.2.3.2 Customs - Levels of trust**

Norfund Nairobi team intimated that they have experienced varying levels of trust across the various countries especially in relation to structuring of equity projects that involves Norfund taking a shareholding. People have mixed feelings about equity projects especially those initiated by foreign investment groups. This is because they feel that they literally are being bought or used. One respondent noted that the level of trust between a foreign company and the local community depended on how well the latter understood the local customs. Two respondents asserted that Norfund has been very cautious on matters pertaining to land use and board representation for equity investments. This is because in Africa there is a strong connotation between land ownership and its use. Land use in particular has therefore been a common challenge across the countries in relation to large agricultural projects. The land ownership structures in some instances have made it impossible for foreign owned businesses to lease land. Hence, Norfund has been particularly sensitive when making investment decisions related to land ownership.

#### **4.2.3.3 Family Structures**

A good number of business projects received by Norfund are family owned. Some communities within the region have strong family ties involved in the operation of the business. A good example is the Asian community. Equity investment by Norfund in family owned businesses with strong ties to the business has been treated with suspicion and in some instances resulting in the project not being funded.

In other areas, appointment of family members to key positions is the order of the day sometimes to the detriment of the company. Loyalty to family in certain instances has resulted to conflict especially where the family members are not working for the interest of the company in which Norfund has an interest. The recruitment process that does not take into account the experience of the candidates is yet another area of conflict. Such policies are in conflict with Norfund policies.

Norfund policies are generally made to be compatible to different cultures. However, certain family traditions or customs where family members want one of their own to run the business cannot be tolerated. According to the respondents, in such a scenario Norfund would rather pull out so as to avoid going against its own policies.

#### **4.2.3.4 Level of State & Political involvement**

Within the Eastern Africa region, the levels of state participation in private sector vary from one country to another. Too much state involvement in the private sector does not augur well with Norfund's investment policies especially if the involvement stifles the growth of the private sector.

In countries where the State feels its private sector is vulnerable, protectionist tendencies have been exhibited. The involvement of the State in certain companies has resulted in Norfund investment team not undertaking some projects. In other instances, politicians in some countries are actively involved in private businesses leveraging on their positions. The Politically Exposed Persons (PEPs) is a major concern for Norfund especially in newer economies in Eastern Africa such as South Sudan.

#### **4.2.3.5 Speed of Execution (Timeliness)**

Bureaucracies and red tape is a common characteristic experienced by the Norfund team in execution of its projects across the various countries. The process of registration of companies, perfecting of securities, obtaining various consent/approval from government offices are riddled with secrecy requiring in some instances brokers. Though the local population are used to these inefficiencies, for Norfund, these are bottlenecks in project execution and in some instances resulting in projects being lapsed.

#### **4.2.4 Responses on Strategies Incorporating Culture in Investment Decision**

All the five respondents had the following to say on what to do to incorporate culture in investment decision:

##### **4.2.4.1 Employment of Locals**

Norfund Nairobi Office team consists of both local staff and expatriates within the investment arm. The local investment managers understand the regional dynamics with eastern Africa. The local team members are also able to understand Swahili that is common within the region. Norfund's policy is to recruit more investment managers from the local population.

Equity based projects require Norfund to appoint representatives to the board of the investee companies. Norfund gives priority to locals with the technical experience sit on the boards of the investee companies on behalf of the company. Where such expertise is lacking, then a board member is sourced outside the region.

Due Diligence process is instrumental in assessing whether to fund a given project or not. During this process, the Norfund investment team employs local consultants with country specific knowledge to assist in the due diligence. The consultants must have a good understanding of the local culture, industry dynamics among other issues. The consultants are usually employed on case by case basis.

#### **4.2.4.2 Policies and Practices**

Norfund has implemented policies that appreciate the diversity of cultures and advocates for cultural tolerance and understanding. The policies are created from best practices. The Norfund team share experiences from the various regions in an endeavor to understand and appreciate the cultural diversity in the areas they operate. The company policies are clearly explained to the potential clients to avoid antagonism later during the project implementation.

#### **4.2.4.3 Building Trust and Confidence**

Norfund endeavors to build trust with its project partners by being open from when they receive a business proposal. This involves addressing the fears the project sponsors have from the onset and providing case examples within the region where they have successfully worked with other sponsors. The company also takes the project sponsors through the various stages to have the project approved. The issues agreed at the onset are then set out in the shareholder agreements to reduce conflict.

### **4.3 Discussion**

As the study found project funding proposals are subjected to a due diligence process prior to submission for approval to an investment committee. The due diligence process

aims at establishing the viability of the project, experience of the sponsors of the project, project market dynamics among others. Kurt Salmon (2011) postulates in his study that the process of decision making begins like it does for any other type of investment.

This study found out that it was important to involve local people because they understood the local language as the people would not feel alienated and there would be a greater sense of ownership of a project. This concurs with studies conducted earlier such as (Deari et al 2008) who found out that language indeed can be an obstacle in a foreign country, especially in negotiations and yet Language is integral in business and that knowledge of a foreign language leads to a more successful business.

The sentiments from respondents that there are varying levels of trust across countries which translate to host countries having mixed feelings about equity projects initiated by foreign investment groups who take a shareholding, can be reflected by Kimmel (2014) who postulates that a lack of trust keeps investors out of the stock market, she adds that the lack of trust in terms of accounting scandals and out of touch compensation practices continue to be characteristics of lack of trust. Kimmel (2014) in her study conducted in USA found out that trust matters are important in minimizing risk of negative events and trust brings a higher return on equity and return on assets.

The findings indicated that in Africa there is a strong connotation of land ownership and culture. Hence, any investment related to land use such as agriculture is taken with extreme caution. Though there are issues such as protectionism that affect investments other aspects such as the local customs are equally important. Norfund, has strived to



remain sensitive to local customs by having people from local communities in the company's board. Having a representation of the local population ensures that investment decisions are compatible to local customs. Local customs directly affect investment decisions but one can also say the same about elements affiliated to the local culture such as land.

There are certain culture that go against Norfund's policies. In such cases Norfund would rather pull out than continue funding what it does not stand for. This is especially observed in businesses where there is a high level of nepotism and corruption during job appointments. Such trends may appear to be quite normal in certain sectors. However, it contradicts Norfund's investment policies and thus necessitating Norfund to immediately reconsider whether to invest or not.

Norfund embraces cultures that do not contradict its own policy and fully integrates them as part of the firm. Such practices have enabled Norfund to fit in diverse regions without creating cultural controversies. Investment decisions at Norfund are therefore conducted taking cognizant of the local culture but in line with the company's policies.

## **CHAPTER FIVE**

### **SUMMARY, CONCLUSION AND RECOMMENDATIONS**

#### **5.1 Introduction**

The section seeks to provide a summary of the findings, recommendations to international and national governments, funding institutions, the general public, international business projects and policy makers in the area of culture and investments decisions and suggestions for further research and the conclusion of the study.

#### **5.2 Summary**

The study found out that indeed aspects of culture in the Norwegian Investment Fund for Developing Countries Nairobi influence investment decisions. There were positive influences to this finding, correspondingly there were negative influences. Norfund experiences cultural differences including language during interactions with stakeholders. It was also noted that translators are used to assist the locals in a language they are familiar with; as such small holder farmers are unable to speak English. Levels of trust influence investment decisions; the study found out that Norfund has been skeptical on matters pertaining to land use and board representation for equity investments and are sensitive when making investment decisions related to land ownership.

At Norfund Nairobi Office, there is a correlation between investment decisions and culture. Local customs that do not contradict Norfund's policy are embraced. Local customs are not regarded as irrelevant given Norfund's efforts in trying to integrate them into the company. For instance, the local population is represented in the firm. This is an

indication that investment decisions do not only depend on the perception of foreign entities but also on the views of the local population. However, local customs that do not reflect Norfund's policy lead to the firms' decision to reconsider investment in a given project.

### **5.3 Conclusion**

This research study attempted to analyze the influence of aspects of culture on investment decisions at Norfund, Nairobi Office. The study has looked into aspects of culture such as language, customs, values and attitudes and their impact on investment decisions at Norfund. The study also has assessed the measures taken to integrate these key aspects of culture in investment decision making as seen from the findings of the study.

It has been established in the former chapters that culture is the learned, shared and enduring orientation patterns in a society and that people demonstrate their culture through values, ideas, attitudes, behaviors' and symbols. Therefore, it is apparent that this complex portrait of a people can influence international business projects, in terms of maximization of profits in other markets. From the findings of the study, it has been established that investment decisions looks into different important issues and these issues may complicate matters in the face of cross cultural differences. Hence, it is this difference in culture that makes it vital for international firms to make an assessment of a foreign market that they want to venture into and ultimately be successful. The investment decisions made are thus dependent on the social-cultural environment that a foreign investor wishes to operate in.

#### **5.4 Recommendations**

In this research, the instrumental role language as an aspect of culture plays in investment decision making cannot be overemphasized. Norfund as with other DFI's operating within the Eastern Africa market need to have within their investment teams professional able to speak the main local languages such as French. The use of translators though important, this cannot be used to replace an investment professional especially for projects in Burundi and Rwanda. The knowledge of a local knowledge can be very useful during the negotiation process.

There are strong cultural sentiments about land rights and ownership particularly in Africa. Though it may seem that foreign investors have no control over it, they can still liaise with the host country's official and get advice on how to go about business without attracting controversies with the norms of the local population. Stakeholder participation particularly of the local community in a project is thus key in ensuring the success of a business venture in a foreign country. It is also important for the local community to be consulted. Additionally, it gives more room for negotiations to take place and creates good rapport between stakeholders.

International business projects need to understand unique cultures of other markets so as to make it in other markets, minimize uncertainty on cultural differences and to gain knowledge on international business environments. Companies need to put in place mechanisms to integrate the culture of the host country for effectiveness and efficiency, reduce conflicts and gain competitiveness. It is important for Norfund, Nairobi office to

ensure that people conform to the norms of the society, in order to reduce the chances of people's rights being violated and to increase success of its business.

The findings of this study indicate a need for further in depth research on the influence of specific aspects of culture on investment decisions. The success of any investment project whether undertaken by governments or foreign investment companies is hinged on the understanding of the local culture. Norfund being a lead DFI in the region needs to mobilize other similar institutions to formulate and develop more policies to integrate aspects of culture in their investments decisions.

### **5.5 Limitations of Study**

The study did have some limitations. Although the respondents approached were willing to give information, they were initially skeptical in a bid to protect confidential information about their firm. The researcher in this case handled the problem by introducing a letter from the University of Nairobi and assuring the respondents that the information they gave would be treated with utmost confidentiality and it would be used purely for academic purposes.

Limitation of information and relevant research material was not an exception; it was a challenge as compared to other areas of study, because information was treated as confidential. The researcher therefore tried his best to be as exhaustive as possible and all inclusive in order for the study to be all covering.

## **5.6 Suggestions for Further Research**

The findings of this research indicate that aspects of culture particularly language and customs of the local population does indeed influence investment decisions. There are however other aspects such as market dynamism that have possible influence in investment decisions. A comparative analysis between the influence of market dynamics and culture in investment decisions will help in determining which of the two plays a more dominant role in making investment decisions. Furthermore, it will give a general overview of how both culture and market dynamics influence each other.

Another key issue that can be quite intriguing to researchers is the culture of investment companies. This paper has focused on how the culture of the host country influences investment decisions. However the internal culture has also possible influence on the investment decisions by foreign companies.

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**APPENDICES**

**Appendix I: Letter of Introduction**



**UNIVERSITY OF NAIROBI  
SCHOOL OF BUSINESS  
MBA PROGRAMME**

Telephone: 020-2059162  
Telegrams: "Varsity", Nairobi  
Telex: 22095 Varsity

P.O. Box 30197  
Nairobi, Kenya

DATE.....

**TO WHOM IT MAY CONCERN**

The bearer of this letter DAVID ITHURANIRA MITHIKA

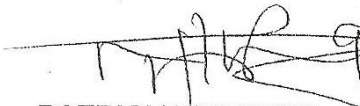
Registration No. D 61 / 70603 / 2008

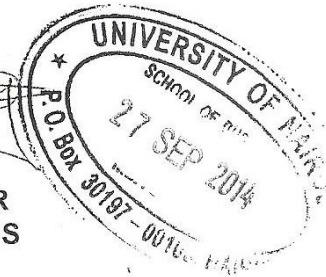
is a bona fide continuing student in the Master of Business Administration (MBA) degree program in this University.

He/she is required to submit as part of his/her coursework assessment a research project report on a management problem. We would like the students to do their projects on real problems affecting firms in Kenya. We would, therefore, appreciate your assistance to enable him/her collect data in your organization.

The results of the report will be used solely for academic purposes and a copy of the same will be availed to the interviewed organizations on request.

Thank you.

  
**PATRICK NYABUTO  
MBA ADMINISTRATOR  
SCHOOL OF BUSINESS**



## **Appendix II: Interview Guide**

1. Who is Norfund and what do you stand for?
2. What role does DFI's such as Norfund play especially within third world countries?
3. How long has Norfund Nairobi office been in operation and what geographical area does it cover?
4. How is the investment decision making process within Norfund?
5. How are investments structured and what instruments does Norfund use in making such investments?
6. What are some of the challenges faced by Norfund in making its investment decisions across several countries?
7. What are Norfund's experiences with regard to culture in its investments?
8. Do customs impact investment decisions in Norfund?
9. To what extent do customs impact investment decisions in Norfund?
10. Does Language influence investment decisions in Norfund?
11. Please give me some examples of situations that show that you can adapt to a variety of cultures, environments and people.
12. Describe a situation where any aspect of culture was a hindrance to achievement of your objectives in your line of duty.
13. How influential is culture in your investment decisions?
14. How do you incorporate language as an important aspect of culture when making investment decisions?
15. How do you incorporate customs as an important aspect of culture when making investment decisions?
16. What are the main strategies used in incorporating aspects of culture?